

JPRS-EER-89-079  
13 JULY 1989



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# ***JPRS Report***

## **East Europe**

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## POLAND

### Defense Industry Restructuring Plans, Difficulties Described

26000549 Warsaw ZOLNIERZ WOLNOSCI in Polish  
14 Jun 89 p 4

[Article by Captain Jan Placzek: "Restructuring in the Defense Industry. The Aim—To Support the Market and the National Economy"]

[Text] For more than a year now changes are taking place in defense industry enterprises with the object of utilizing more broadly their capacities for the production of consumer goods and products meeting the needs of the national economy.

This possibility is due to the political detente taking place between the countries of the East and the West, and to the gradual improvement in international relations. The measures to restructure the nation's defense industry also are adapted to our economic situation and the decrease in the needs of the armed forces and in obligations to foreign partners.

All this causes the freeing of capacities for the manufacture of special products [armaments] at the existing defense industry plants. It is the intent of both the government and the enterprises themselves to utilize these capacities as rapidly, optimally, and effectively as possible for civilian production.

#### The Base

The core of our defense industry is several score plants having the status of defense industry enterprises. Although their output is needed for national defense and national security, they have already for years been manufacturing many products for the needs of the national economy and the market, on utilizing to this end about 60 percent of their capacity. This is on the average, because only a few of the defense industry plants use more than 50 percent of their capacity to produce for military needs, with most such plants using several percent to about 15 percent of their capacity for military needs. These enterprises employ skilled engineers and technicians and, as a rule, operate modern specialized machinery and equipment. At the same time, it should be borne in mind that in peacetime conditions their productive assets are not fully utilized. Enterprises of this kind should, in accordance with the rules of defense economics, have on hand adequate reserve capacities for a rapid and reliable retooling in the event of a threat. This also is why they use part of their capacity to manufacture nonmilitary goods. In many cases this is promoted by their all-purpose machinery pool which can be utilized for both defense production and the needs of the civilian sector. However, part of defense industry subsectors requires highly specialized machinery and equipment that are not suitable for extraneous production (e.g., the machinery for manufacturing ammunition

and armaments). The enterprises manufacturing these products usually keep their special-purpose machinery and equipment in separate departments, while at the same time using their general-purpose machinery and equipment to manufacture products for civilian needs insofar as their capacities permit.

All defense industry enterprises are characterized by a good organization of labor and a high level of technical culture and technological discipline. This affects directly the standards of the products they manufacture for the national economy and the consumer market: most of these products are certified to be of superior quality. It is worth noting that these products are made for both the domestic market and exports.

An important factor in restructuring and altering the nature of production at these enterprises is technological similarity and the possibilities for series production. This concerns chiefly ease of retooling (if the need arises) the plant for the needs of special-purpose [military] production. Therefore, in a peacetime economy the products to be manufactured are selected from the standpoint of similarity of manufacturing processes, series size, and extent of coproduction. For example, the plants manufacturing armored equipment may begin manufacturing bulldozers, power shovels, cranes, or appropriate subassemblies and spare parts for vehicles of this type, while the plants manufacturing military radio stations or radar equipment can introduce broadly conceived production of electronic equipment.

#### Plans—But Not for the Drawer

The restructuring of production at the Polish defense industry enterprises is a target of the "Implementation Program for the Stage of the Economic Reform." This restructuring is coordinated by the Defense Industry Committee under the Council of Ministers. Pursuant to a decision of that Committee, the minister of industry has drafted a program for expanding "civilian" production at defense industry enterprises. It is known from the plans drafted in the fall of 1987 that a predominant proportion of enterprises of this type is expanding its output of general consumer goods. It can be expected to augment, among other things, the supply of regular and new kinds of electronic equipment: television sets, radio receivers, tape recorders, optical equipment, and household appliances such as blenders, coffee grinders, pressing irons, and cuisinarts. It will also contribute to augmenting the supply of kitchen utensils, bathtubs, sinks, and also clothing and footwear. Moreover, the defense industry will increase its deliveries of producer goods for the electronics industry and chemical products for the construction industry (adhesives, paints, fiberglas).

Specific information on expanded measures in this respect is provided in the Politburo report presented by Wojciech Jaruzelski at the Seventh Plenum of the PZPR Central Committee: "An increase in the supply of consumer goods by the defense industry is expected. In

addition to the goods it already is supplying, it will expand by several score billion zlotys its output of scarce and high-grade consumer goods."

These matters also were reflected in the "Plan for Consolidating the National Economy."

In 1988 the defense industry enterprises subordinate to the minister of industry earmarked for civilian needs output aggregating 900 billion zlotys, of which 189 billion was for market needs. As a result, last year the supply of, for example, juice extractors could be increased by 10,000 units; cuisinarts, by 1,000; sewing machines, by about 6,000; and typewriters, by about 2,000. In addition, the output of coffee grinders could thus be increased by 20,000; gas ranges, by 7,500; home heaters, by 25,000; and automotive towlines, also by 25,000.

### On Novelties

As pointed out in overall 1989-90 plans for defense industry enterprises their output of goods for the national economy will steadily increase. For this year it is expected to reach about 109 billion zlotys [as published, compare the figure of 900 billion zlotys in the preceding paragraph], of which about 48 billion for the market. The defense industry will provide the national economy additionally with about 180 small mine loaders, about a dozen cranes, and several hundred Diesel engines. In addition, it will provide an unusually broad variety of traditional products such as floor linings for housing construction, plastic window frames, sewing machines, typewriters, gliders, farm equipment, food-processing equipment, large mine loaders, and a broad range of electronic equipment.

Innovations provided by the defense industry will also appear on the market this year. It will produce, among other things, a miniature tractor, chiefly for use in gardening and orchardry. Its production was started last year and this year it is slated to reach 1,500 units. In addition, the defense industry is manufacturing new household appliances such as toasters (15,000), steam irons, automotive fire extinguishers (3,000) and many other similar products. As for the traditional consumer goods manufactured by the defense industry enterprises, the plans for this year provide for increasing the supply of, among other things: coffee grinders, by 121,000 units; electric meat grinders, by 7,000 units; motors for motorbikes, by 18,000; enameled kitchenware, by 98,000 units; aluminum kitchenware, by 240,000 units; radio-tape recorder assemblies, by 35,400; MTGV-100 video recorders, by 12,000; tape recorders, by 2,500; high-fidelity equipment, by 50,700 units; and color television sets, by 45,000. In addition, the industry has launched the production of oil heaters, which are in demand nowadays, central heating boilers, and solar collectors (for the time being experimentally, in small numbers).

Likewise, the defense industry will expand, though not as much as above, its output of cuisinarts, automobile trailers, gas ranges, tents, and typewriters. Unfortunately, most of these products will be exported, because the plants manufacturing them need hard currencies to acquire the raw materials and components indispensable to maintaining and developing the output of these products for the national economy and the domestic market.

### Services!

The "civilian" output plans for 1990 at defense industry enterprises subject to the Ministry of Industry envisage altogether expanding output for the national economy by about 107 billion zlotys, of which 37 percent is to consist of consumer goods (in constant prices of 1987).

In addition to broadening the range of their civilian production or introducing new products, these enterprises are beginning to broaden their provision of repair services. Such services are handled by a small number of defense industry enterprises bearing the name of repair-and-production enterprises, which are subordinate to the minister of national defense. As the series of equipment and assemblies repaired at these enterprises become lengthened and their technologically necessary workstations and machinery are more fully utilized, they set aside part of their production capacities for the needs of the national economy as well as for exports; this includes repairs of equipment for countries of Payment Areas 1 ["socialist"] and 2 ["capitalist"]. Altogether, the proportion of capacities thus set aside is one-fifth of the annual plan, and it tends to rise.

Military machine shops repair Diesel engines for, among others, railroads and mines. They provide similar services as regards Kraz and Star trucks, delivery vans, and public transportation vehicles. Military aviation plants perform engineering tests and repair AN type aircraft, helicopters, aircraft engines, aircraft assemblies, and also radio and transmission equipment used by various "civilian" customers. A significant number of services is provided to "civilian" customers by military armaments, communications, electronics, and engineering plants. In addition, plants of this type are commencing the small-scale production or recovery of spare parts for their own repair needs, as well as for military units. Taken together for all enterprises of this type these services recently aggregated 10,000 parts and assemblies of all kinds.

### Barriers

The changes outlined above as regards expanding "civilian" output are, of course, encountering many barriers and difficulties.

It is easiest to augment production in plants whose participation in special [military] production is limited, for at these plants, in principle, no problems arise when reducing the quantity and variety of production for



military needs. In this case "civilian" production increases automatically, as it were. This applies especially to plants in light industry subsectors as well as to various supplier plants.

Much more difficult is the situation with the retooling of plants operating special-purpose machinery and equipment suitable solely for defense production. Most often this concerns separate departments of this kind, adapted for mass defense production. This also applies to munition plants with automatic production lines and corresponding inventories of raw materials. Adapting them to civilian production is extremely difficult. In many cases such special-purpose equipment cannot be utilized for civilian production or sold abroad. This complicates the situation and affects financial solvency at enterprises of this kind.

But the greatest problems may relate to the enterprises whose output is mostly for national defense and national security. In this case reducing output owing to lack of orders by domestic and foreign customers causes an increase in the unit cost of the products manufactured. Enterprises of this type take much longer to convert to civilian production and as a rule they underperform financially. That is why they should be provided with assistance during their retooling and adaptation to new production.

The difficulties encountered by the nation's defense industry in expanding its civilian output also include shortages of producer goods and of the hard currencies that could be used to acquire components unavailable in Poland. Defense industry plants also complain that a majority of their suppliers refuse to accept increased orders or provide only limited quantities of producer goods.

These obstacles are compounded by the difficulties encountered by discrete defense industry enterprises. This concerns attracting the best engineers and technicians. For after all, the industry cannot discontinue its manufacture of special-purpose products needed, e.g., for the proper training of military personnel. Likewise, it cannot unilaterally withdraw from its [arms] export obligations.

#### **Kolakowski Outlines Solidarity's Desired Role in Government**

26000546 Krakow TYGODNIK POWSZECHNY  
in Polish No 21, 21 May 89 pp 1-2

[Article by Leszek Kolakowski: "Must We Wait for a Miracle?"]

[Text] When on 3 January 1989 I was leaving Warsaw after a visit of nearly 3 weeks, it still had seemed to me uncertain and doubtful whether the so-called roundtable would take place at all and, the more so, culminate in some justified and credible compromise. The undertaking of negotiations was welcomed by all the Poles living

outside Poland with whom I had the chance to talk. The results, it seems to me, also were for the most part acceptable to them, if not with fireworks of enthusiasm but certainly in the belief that the accomplishments in general were the maximum attainable under the circumstances.

I am aware, of course, that both during, before, and after the negotiations their participants were and continue to be attacked: within the party, by those who yearn for Stalinist order, and within the opposition by those who view any compromise as betrayal.

On the basis of the admittedly fragmentary information I derived from lectures and talks, I have gained the following idea of such criticisms:

Those who accuse Lech Walesa and the Solidarity activists participating in the negotiations of reneging on the movement's principles claim not only that any compromise is not credible in view of the previous history of all kinds of compromises, agreements, and promises made by the other side (as, often pontifically, young people instruct in their writings Walesa, Geremek, Frasiński, Mazowiecki, Kuron, Szaniawski, Turowicz, and others, who apparently have never realized it so far), but also that the opposition should on principle reject participation in any official structures, as otherwise it would simply become part of the existing order and thereby forfeit its actual purpose; its purpose is to create a force that would exert pressure on these structures from the outside alone, without soiling itself with negotiated compromises or participation in legal institutions. For otherwise the opposition would be legitimizing a power system that lacks democratic legitimacy.

But still what does it mean: to participate or not to participate in the official structures? In this sense, a majority of people in Poland actually participate in them in one way or another by being employed in institutions of the state, so that is hardly the point. Likewise certain forms of participation which are indisputably impermissible to the opposition also are not the point. Of a certainty then the point is some indirect forms, but exactly which ones? An example: can the faculty of a university claim that it does not matter whether its president is a decent and courageous individual or a scoundrel? Yet even the most democratically elected and world's best university president is a participant in "official structures"; he has to communicate and negotiate with appropriate administrative authorities, etc. Similarly, should we say that it does not matter, from the standpoint of social interest, whether the legally operating publishing houses are publishing valuable books or trash? Or, to give a more general example, is it wrong to struggle for legislative changes that are in the general interest, e.g., changes in the legislation on labor, welfare, censorship, or private enterprise? Should we condemn counsels for the defense who, after all, can exercise their profession only within the framework of the binding laws? I do not claim that I am perfectly conversant with

the answers given to these questions by the opponents of "participation in official structures"; rather, I simply would like to know these answers. I have even heard that some people, probably a small and aberrant minority, who condemn efforts to obtain private foreign medical assistance on the grounds that this would "help out the government" in matters which it is supposed to handle itself (which ultimately reduces to the rule: let children and sick people die so long as we can claim credibly that it is the government's fault).

Or perhaps the point is only that the opposition should not take part in the executive machinery of the authorities? But this is precisely what the opposition is not doing: it cannot accept tasks which would burden it with responsibility for the government's economic, social, or foreign policy, on which it exercises no tangible influence. Therefore, it is unwilling, if I understand its tactics, to accept posts in the government—and the more so in figurehead, fictitious institutions. It has, however, agreed to participate in legislative (and not in executive) bodies, even though the anticipated constitutional changes regarding the Sejm, the Senate, and the presidency leave in the hands of the communist party safeguards against its legal dislodgment from power in the event of drastic conflicts. This is a debatable and risky issue, certainly, but from the standpoint of an outside observer such as myself, the building of strong institutional bridgeheads of the opposition, even in conditions of 35-percent democracy [35 percent of seats in the Sejm have been allotted to Solidarity], seems important and useful to defending public interests: while legally the opposition will be a minority in the legislative bodies, it will have the opportunity, owing to, among other things, access to the mass media, to act as an effective pressure group, as well as to block initiatives opposed to national interest. (In this connection, I do not want to consider the question of whether the participation of *Znak* [a Catholic association] in the Sejm following 1956 [workers' bread protests in Poznan, return of Gomułka to power] was useful or seemly. People who say that it was neither useful nor seemly cannot infer any conclusions from it either as to the present situation, because it is so different.)

I asked people who support the "rejection of participation in official structures" what would be, in their opinion, a good alternative tactic, but I could not get them to answer. My overall impression is that either the supporters of this view have no alternative tactic to propose, that is, they prefer inaction, or they champion the insurrectionary tactic. I admit that I do not know of any persons or organizations which directly and unambiguously proclaim the insurrectionary tactic (or terrorist actions); but if they exist, I would like to know not just their slogans but what they actually are counting on. The principle, "The worse things are the better they are" may be effective only in the short run in the event that a "final solution" or a "final battle" can be expected in the very near future and the chances for the success of an armed insurrection are very good. The Bolsheviks could

follow this tactic in the hope—justified as it turned out—that it would work, after the February Revolution, which was triggered by a concatenation of circumstances and to which they themselves had not contributed, but previously, under nonwartime and less favorable circumstances, they had agreed to take part in the parliamentary opposition; this is something that even their followers should take into account.

True, the hopelessness of life in Poland, the catastrophic economic situation, [passage deleted from original text and replaced with notation: Decree of 31 July 1981 on the Censorship of Publications and Entertainment (Article 2, Point 3, DZ.U. No 20, Item 99; revised in 1983, No 44, Item 204)], the broken promises, the inflation, and the desperation—all this could be vented through elemental explosions. The question is whether such explosions, however readily explainable, can be a foundation for the expectations of a "final solution." (It is certain that bastions of Stalinism within the party would promote such explosions in the hope of a different "final solution.") I believe that the answer is no. It is not true that in Poland "power lies in the street," and it is not true either that the ruling apparatus lacks any substantial base of support and will fall apart the moment it gets flicked in the nose. Neither is it true that the society is only waiting for the sound of the golden horn [a reference to Wyspiński's play "The Wedding"] calling for an insurrection, nor that intervention [by the Soviet Union] is absolutely out of the question, no matter what [passage deleted from original text and replaced with notation: Decree of 31 July 1981 on the Censorship of Publications and Entertainment (Article 2, Point 3, DZ.U. No 20, Item 99; revised in 1983, No 44, Item 204)]. The belief that the ruling apparatus is less prepared for a confrontation than it had been in December 1981 [when it imposed martial law], and that the opposition is better prepared, seems to me wishful thinking: a violent confrontation at this time would be yet another national disaster. Bloodshed is not an absolute evil and at times in history it has been justified by a good cause; it would be stupid to claim that it should be avoided "at any price," but this does not imply that it can be recommended regardless of the circumstances.

For many years the opposition in Poland has been basing its calculations on changes in the system of society that could be extorted under the combined pressure of organized social demands and the economic disasters that the total command system inevitably causes. It can be stated on the basis of the experience so far that these expectations have hardly proved to be in vain, however the actual situation may differ from the imagined one. Those who think otherwise would do better to explain their tactical rationales instead of trumpeting glittering generalizations on the subject, such as "We desire democracy and independence." There are many things in the world that people desire, but that means little so long as they do not know the answer to the question of how to obtain them. What do we count upon if we assume that partial patching up is worse than no repair at all and does not bring us closer to any solution?

[Passage deleted from original text and replaced with notation: Decree of 31 July 1981 on the Censorship of Publications and Entertainment (Article 2, Point 3, DZ.U. No 20, Item 99; revised in 1983, No 44, Item 204)] (government propagandists who still use this term without ever explaining it probably have only this in mind; if it were something else, perhaps they would have explained it), may still last fairly long. The horrifying ecological disasters and the desperate economic situation of Poland are not matters that can be put off "till later," unless what matters more to us is not saving the country but being able to say at a certain moment, "Poland is in the grave, but it is the fault of communism."

It would be banal and practically meaningless to say that I do not believe that Lech Walesa and Solidarity advisers and activists are infallible and above criticism. I am saddened, however, to notice that some of their critics use the language of rage, have envious pretensions, and make insinuations that elicit the worst fears. In some cases—marginally few, I hope—they even have hallucinations about "Judeo-masons," engendered by obscurantists whether of communist or of clerical hue (the difference is not great; in critical moments they unite).

Are we then to await a miracle? Or are we to flail about the cutlass and, looking to neither side, fall with honor on the field of battle? Or, bit by bit, painfully, should we assert the will for Poland's self-determination under the difficult circumstances allotted to us by fate?

#### **Measured Approach Called for in 'Policy Toward East'**

26000547 Warsaw TYGODNIK SOLIDARNOSC  
in Polish No 1, 2 Jun 89 p 9

[Article by Andrzej Friszke: "Our Eastern Policy"; this issue is No 1 (38), numbered to stress continuity with the TYGODNIK SOLIDARNOSC whose last issue No 37 was printed just before martial law was declared in December 1981]

[Text] Can destitute and debt-laden Poland have an eastern policy of its own? Such aspirations seem unwise or adventurist. I think, however, that an eastern policy is needed, particularly now that so many important things are happening in the East and Poland is entering upon a new period in its history when the opposition is emerging from the underground into public life and even into the parliament.

For the last couple of years rapid and far-reaching changes have been occurring in the east of Europe. What can be read in the Soviet press is surprising and conflicts with our longtime experience. The transformations extend to many domains of the life of the state and the society. The recent elections in the USSR are an unprecedented event. The attitude of the Soviet Union toward the Polish opposition, and primarily toward NSZZ Solidarity, has changed. The well-remembered hostility of the years 1980-81 has disappeared. We perceive interest

and even some goodwill. This change in the attitude of the Soviet authorities has tremendously facilitated the compromise, the legalization of Solidarity, and the admission of the opposition to the Sejm and the Senate. All these changes are of an importance which cannot be overestimated.

Another aspect of changes in the USSR is the rise of strong movements of the non-Russian nationalities—Lithuanians, Latvians, Estonians, Armenians, Azerbaijanis, and Georgians. It turned out that these movements are not always necessarily against the Russian majority. The most dramatic events and the most terrible enmity manifested themselves in the relations between small nationalities such as the Armenians versus the Azerbaijanis or, looking at it from a somewhat different perspective, between Christians and Moslems. Recently there has been unrest in Georgia and it is difficult to predict the further course of events in that republic.

In Poland these matters are of interest to the intellectual elites, but probably less so to the average citizen, who is worn out by the vexations of quotidian life and who moreover does not always find it easy to orient himself in the intricate political and nationality mosaic of the Soviet Union. Still, Poles, or at least their political elites, should form a position of their own on the eastern affairs. The old dream of Stefan Kisielewski that Moscow be also on talking terms with the opposition is nowadays more real than ever. Thus, intentions and aims have to be formulated.

I assume that the evolution of the Soviet Union toward the creation of a pluralist society will continue. If this assumption proves wrong, there will be a regression there, and it is bound to spread to Poland so that even the prospects now unlocking may be locked up again. Thus we as Poles are interested in the evolutionary advancement of the USSR in the direction of democracy. I perceive the following two possible processes as the chief threats to such a direction. First, if the democratic changes occur at a too rapid pace, they will become uncontrolled and menace the interests of too many people linked to the traditional system. Second, if the growth of the movements of non-Russian nationalities becomes too rapid and too radical, and the political elites of the USSR begin to believe that perestroika leads to disintegration of the state.

I am acquainted with individuals who claim that only Russians can be our partners in the East. Lithuanians, Latvians, Estonians, Ukrainians, and Belorussians should be left to themselves or rather ignored. This style of thinking has a long tradition and deep roots in Poland. Just as traditional and deeply rooted is the opposite point of view: in principle, Russia should be ignored and the movements of the non-Russian borderland peoples should be supported, because our goal should be the dismemberment of Russia. In present-day Poland there exist groupings and writings which carry on both styles of thinking.



Well, it seems that nowadays both these styles are erroneous. We cannot pretend that only Russians live east of our eastern frontier. This is not so. What we could observe in 1988 in the Baltic countries and in the Caucasus should disillusion those who had believed that in the meantime a new Soviet nation has simply evolved there.

The relations between the central authorities in Moscow and the republic authorities, as well as between Russians and non-Russian nationalities will of a certainty still undergo various stages whose final shape can hardly be envisaged now. These unusually important events have to be watched and analyzed. But we should be moderate in our judgments and expectations. In particular, we should refrain from giving advice as to what our neighbors should do. They should themselves explore ways of their mutual coexistence. Attempts at inciting nationality conflicts, even if they are only propaganda attempts, would be bound to arouse mistrust toward Poles and as a consequence reduce the chances for the growth of pluralism and freedoms in Poland.

But this does not mean that we should be passive and abstain from contacts with Lithuanians, Ukrainians, or Belorussians. We are linked to these nations by a long history. In the past our relations with them entailed many good and bad experiences. In our veins flows a part of Lithuanian, Ukrainian, and Belorussian blood, and in their veins flows a part of our blood. Despite this affinity, we were divided by a deep conflict when Poland attained an independent existence in 1918. This conflict sometimes turned into hatred, and it lasted for two decades. Precisely because we were linked by a common past, ties of blood, and a extensive shared borderlands, this conflict was so deep and prolonged. They did not want to live in our common mansion, in our common state. We could not understand and would not accept it. No one was able to propose a sensible division of common land.

The Vilno and Grodno regions were jointly inhabited by four nationalities; Poles, Lithuanians, Belorussians, and Jews. Eastern Galicia was Ukrainian country, but it also was a country of Poles and Jews. They all had felt at home there, but they, particularly the Poles and the Ukrainians, refused to acknowledge each other's equal national rights. In some regions statistics as to which nationality group was numerically predominant were difficult to obtain. Lvov was a Polish city surrounded by Ukrainian villages. The Vilno region was a Polish enclave surrounded to the west by a nearly purely Lithuanian area and to the east by Belorussians. This conglomeration of nationalities and cultures rendered impossible a peaceful coexistence in the era of nationalisms. Hence also the period of our independence and subsequently World War II was at the same time a period of hot and cold Polish-Ukrainian, Polish-Lithuanian, and Polish-Belorussian wars.

The quarreling nations were pacified by Josif Stalin. The new eastern boundary of Poland was so fixed that all the principal disputed territories were incorporated in the USSR. Most of the indigenous Poles were resettled from the borderlands to Poland. The independence-minded national (or nationalist) Ukrainian, Belorussian, Lithuanian, and also Latvian and Estonian elites were physically liquidated or deported far to the east. The remaining Ukrainians inhabiting the eastern borderlands of the Polish People's Republic were either resettled in the USSR or, as part of "Operation Vistula," transplanted to the Recovered Polish Territories in the West. Since then, properly speaking, it has been difficult to speak of mutual relations. There have been only personal contacts between Poles and their Lithuanian, Ukrainian, or Belorussian neighbors. The few institutions fostering the cultural and social life of the minorities were taken over by the government and, properly speaking, they are not serving as a platform for dialogue.

It was only in recent years that broader interest in the Slavic minorities and our direct neighbors across the Bug and the Niemen has arisen in Poland. This is most often linked to oppositionist attitudes, but it also is very often linked to the rejection of nationalism. In the last decade Polish citizens of Ukrainian, Belorussian, and Lithuanian origin have become vocal about their ethnic origins, and intellectuals belonging to these nationalities have begun to play a role in university and public life. Whether we want it or even not, we have dealings with them. Emboldened by our openness, they tell us their views about our past and present attitudes. They have many claims and sometimes even they turn their backs on us.

There exists a paradox in this nascent dialogue. Its Polish participants are ready to condemn various manifestations of former Polish attitude and policy toward these national minorities. They often beat their breasts in repentance for their fathers and grandfathers. However, the Ukrainian, Lithuanian, and Belorussian partners to this dialogue are rarely as critical about their own traditions. They defend the justice of the actions of their ancestors. This situation is not too healthy, even if it is understandable. Poles do not feel that their national identity is in a crisis. The opposite, rather. Poland, although a poor country beset by an economic crisis, is a country with a rich culture, an intellectually sophisticated intelligentsia, and a working class and peasantry that are patriotic and aware of their rights. Poland is known in the world. The pope is a Pole. Poles have succeeded in gaining for themselves broad rights to social and political development. By contrast, after years of oppression, it is only now that Lithuanians are beginning to build their own cultural-national and social infrastructure, while the Ukrainians exist in a still more rudimentary stage. In Poland the ethnic minorities often encounter instances of intolerance, disdain, and even hostility.

For all these reasons they find it difficult to reappraise seriously their national traditions, since tradition is the

paramount point of reference for finding national identity. In the future, however, certain traditions must be reappraised if Polish-Lithuanian or Polish-Ukrainian dialogue is to have a chance to develop. I do not perceive favorable prospects for such dialogue unless the Ukrainians, for example, approach in a critical spirit the inflated forms of nationalism in their own political past—unless they admit that their so-called integral nationalism was a mistake and that the UPA [Ukrainian Partisan Army] committed crimes on Poles.

What then should be done?

I think that we as Poles should set ourselves moderate though difficult goals. Our guiding idea should be that the corner of Europe which we inhabit should be a site of cooperation and rapprochement among nations. There have been enough wars and explosions of mutual hatred. Let us exert joint efforts to live in peace for the rest of our life. This desideratum applies to Poles, Lithuanians, Belorussians, Russians, and other nations living east of the Elbe River, in what is after all a common European home. "The worst disservice that can be done to the cause of Polish independence and democracy is to perpetuate the traditional nationalist anti-Russian stereotypes among the society.... Polish anti-Russian nationalism has contributed, as a natural reaction, to perpetuating Great Russian nationalism," wrote Leszek Kolakowski some 15 years ago in an unusually important article, "Theses on Hope and Hopelessness." I believe that this observation also applies to Polish-Ukrainian, Polish-Lithuanian, Polish-Belorussian, Polish-Czech, etc., relations.

Let us study the history of our relations with these nations and their own history as well. Let us learn about each other's cultures. Let us try to cooperate economically, as part of the newly rising possibilities as well. Let us learn democracy and tolerance, which are the best safeguards for preserving peace. This is a tremendous task, which will take decades and requires a gigantic expenditure of efforts, goodwill, self-restraint, and disregard of difficulties. West Europe, an area with vast national and political conflicts in its past, has succeeded in creating a cultural-economic-political community. In East Europe a community based on similar principles is hardly likely for the time being: the barrier of mutual distrust and of often justified feelings of mutual wrongs is too tall.

It is not prospects for boundary revisions and the return of territorial disputes that should be our aim. We should instead strive to open the existing frontiers to the free flow of people, books, and ideas, and to respect the rights of all national minorities to cultural and social growth, to respect the rights of man.

### **'Club of Independent Experts' (KEN) Formed, Members Listed**

26000556a Warsaw GAZETA BANKOWA in Polish  
No 6, 6-12 Feb 89 p 3

[Unattributed article: "KEN"]

[Excerpt] In November 1988 was formed a team, or an informal group, of persons in various professions, interested in healing the Republic. It consists of eight members, who are its core, and can be expanded with additional independent experts. It is the heir of the 1981 "Team of Nine," which operated in the SDP [Association of Polish Journalists] Building and prepared independent expertises that were published in ZYCIE I NOWOCZESNOSC. This relationship is not just limited to the magic number "nine" but also to the name of the team's chairman, Professor Janusz Goscinski as well as to the similarity of the role which this team would like to play in public life. The team's members, feeling themselves to be persons of independent views on both the state of the society and the state and the causes of the economic crisis, the social peril, and the political system in this country, that is, the extent of the sovereignty of citizens and the society, have formed a kind of Club of Independent Experts (Klub Ekspertow Niezaleznych—KEN). In addition to the Chairman Janusz Goscinski, the other members are: Stanislaw Albinowski (economics), Wlodzimierz Bojarski (power industry and the economy), Leon Bojko (agriculture), Andrzej Bratkowski (urbanistics and construction), Tomasz Gruszecki (economics, economic law), Piotr Krasucki (medicine and labor safety), and Andrzej Piekara (cooperatives and administrative law).

The KEN's purpose is to alert public opinion to perils as well as to propose particular social and economic solutions. [passage omitted]

### **KEN Outlines Move to Economy Regulated by Market Mechanisms**

26000556b Warsaw GAZETA BANKOWA in Polish  
No 14, 3-9 Apr 89 pp 3, 13

[Article by Janusz Goscinski: "From Suction to Pressure"; first two paragraphs are GAZETA BANKOWA introduction]

[Text] This third article from the KEN [Club of Independent Experts] is an abridged version [of a proposal] for revising the scenarios so as to incorporate the conversion of the economy to operation in accordance with the laws of the market mechanism, along with a correspondingly modified economic policy that during the "transition period" would either support market mechanisms or act in their stead until they begin to operate autonomously. This means chiefly reorienting the economic policy toward a rigorously anti-inflationary and antimonopoly policy promoting organizational-economic and property relations leading to the rise of authentic competition.



The membership of the Club of Independent Experts, listed on the occasion of its first expertise in GAZETA BANKOWA No 6, of 6 February 1989, has been expanded with the addition of Mr Wojciech Lamentowicz (jurisprudence).

The planned economy of the command-allocation type, which is currently sharply criticized as an economically incompetent mechanism, is capable only of promoting the extensive model of economic growth, and it does not assure an efficient utilization of productive factors. The current reforming measures have the aim of introducing the principle of a regulated decentralization of decision-making powers in a centralist and still monocentric, although liberalized, system, at least in the short run. Any decisions relating to economic activity (quantity, kind, grade, etc., of products, or crops, goods, or services), and to the assets, funds, etc., transferred by the administrative authorities to the enterprises, may be revoked [by the regime] to the desired extent, at any time, and in any manner as best illustrated by the emergency powers decreed to the government in 1988.

Pluralism of organization and forms of property exists and develops both quantitatively and qualitatively, meaning both the diversity of forms of enterprises and their groupings and diversity of forms of proprietorship (cooperatives, corporations, joint-stock companies with or without shareholding by the state, with their employees as shareholders and stockowners, joint ventures, enterprises with participation of foreign capital, etc.). This factor promotes reorientation in the direction of an economy operating in accordance with market rules, although it should not be overestimated. Unless the market mechanism is unblocked to the economy as a whole, this differentiation of forms in itself leads nowhere.

Our political, social, and economic system consists of five fundamental elements:

- the political doctrine, which determines the principles of the political system, such as a mono- or polycentric exercise of political power, representative bodies, electoral laws, property relations, etc.;
- the structure of political power, which is adapted to the principles of the doctrine and situates the ruling party in the coalition structure and in local governments, worker self-governments, occupational self-governments, and which determines the rules for staffing posts in the administration, the economy, etc.;
- the structure of the economy, that is kinds and status of economic organizations, scope of their autonomy, the rules for their grouping, etc.;
- the operating system of the economy, that is, the ensemble of rules governing the scope and nature of central regulation and the relations among economic organizations, as well as the conduct and attitudes of these organizations;
- economic policy, i.e., the ensemble of fundamental

social and economic objectives, the related preferences and priorities, and the regulations governing the attendant problems such as labor relations, market protection, antimonopoly policy, credit policy, the social security system, etc.

We believe that insufficient allowance is made for the interdependences among these five elements when formulating the assumptions of the economic reforms, and this results in the "bogging down" of practically any reform in every socialist country. The only integral attempt in this respect was the "Prague Spring" [in 1968], but it had met with complete lack of understanding among the socialist allies. Now, 20 years later, rudiments of this approach can be observed in the USSR and Hungary, and they also are budding in this country.

The relations existing between any two elements of this ensemble are such that the doctrine and structure of political power dominate this system, that is, that they affect the remaining three elements much more markedly than vice versa. The conclusion is that attempting to reform the operating system of the economy and the social and economic policy without changes in the doctrine and structure of power produces no effective results and instead culminates in a fiasco of the reformist cause.

We have not yet, unfortunately, accomplished any major doctrinal changes. (The Hungarians have so far undermined several dogmas, such as the dogma of full employment, the dogma of capital investments, etc.) We have also not implemented any major changes in economic policy such as would effectively result in far-reaching changes in the material structure of the economy. The economic reform, that is, the reform of the operating system of the economy, has not received sufficient support and hence also it lacks adequate opportunities for success.

Instead of reforming the economy, what happened was double-digit inflation, a deterioration in the market supply of consumer and producer goods, and further growth of indebtedness both domestically (a rising budget deficit) and abroad, along with a decline in the living standards of various social strata, especially the intelligentsia.

If the economy is to begin operating effectively and to be productive, it is necessary not only to convert it to a market economy but also to revise and abandon many doctrinal dogmas in favor of the democratization of interpersonal relations, pluralism of organizational forms and property relations, and reorientation of economic policy in favor of means of consumption and an intensive material restructuring of the economy. It also is necessary to abolish the oppressive supremacy of doctrine and politics over economics and the economy, and to deprive the state administration and party echelons of

the right to interfere with the activities of economic units, and also to firmly counteract economic monopolies in manufacturing, trade, distribution, procurements, etc.

We supplanted the market mechanism with the concept of the economic mechanism, which is not only meaningless but also derails the economic reform. The assumptions for the second stage of the economic reform provide that prices will be determined by supply-demand relations. However, the relations thus meant are to be determined not by market forces, contrary to what is groundlessly and erroneously claimed by M. Mieszcankowski (POLITYKA, No 47, 1988), but by that "economic mechanism," which is to be socialistically determined by the state in terms of both demand (state regulation of the incomes of households and economic organizations, along with state price controls, or at least price-shaping) and supply (regulated supplies of goods, hard currencies, and investments, a corresponding tax policy, etc.). It is obvious that an economic mechanism that is centrally regulated, on both the supply and the demand sides, has nothing in common with the market mechanism and does not merit serious consideration.

Instead of a market mechanism, a parametric system has been chosen as the economic mechanism and the foundation of the reform. In other words, the chosen mechanism is the mechanism of central regulation of economic processes by means of values of parameters (prices, wage rates, bank interest, etc.) that are defined and altered by decisions taken at various administrative levels. Such a mechanism means failure to separate the functioning of economic organizations from the state and its administrative machinery; yet, that separation is a *sine qua non* for the success of the reform and for authentic effectiveness. A market-based solution can be only one in which the market regulates the entire commodity, money, and capital system, that is one for which the law of value is the foundation for sale-purchase transactions and for the medium- and long-term allocation of productive elements in the economy and the attendant creation of the material structure of the economy. Administrative allocation of productive resources results in upsetting the material structure of the economy and wasting these resources, by systematically exacerbating the shortages of production factors and aggravating the imbalances between supply and demand. And this, in its turn, results in inflation as the most important, next to the taxation system, cause of the erosion of the system as a whole. Besides it can be seen with the "naked eye" in our economy in recent years.

The structure of the Polish economic potential is characterized by far-reaching disproportions. First, the structure of employment (in agriculture, extractive industry, processing, and services) is among the most hidebound in Europe. Second, the share of industries with extremely high consumption of energy and producer goods is incommensurately high in the economic structure. Third, there is the deep lag of the industries decisive to

the cultural progress of the country and the modernity of its economy. The share of R&D industries in Poland accounts for 2 percent of industrial output, whereas in the developed countries, according to the "Poland in 2000" report, it is 14 percent. Labor productivity in Poland is estimated to be only one-third of that in four countries of West Europe (the FRG, France, Italy, Switzerland) and this is due in equal degree to three factors: the faulty structure of industry, the poor organization of labor, and the low labor discipline and productivity of individuals.

Thus the culprits are, to an equal degree, personal, organizational (or rather administrative), and structural factors. The first two are linked to the operation of enterprises. W. Pankow asked a dramatic question (in the title of his article in SERWIS NAUKA-TECHNIKA-GOSPODARKA, No 1, 1988), namely, whether the Polish enterprise can "attain" modernity? Below we cite two of his numerous interesting statements and conclusions. First, the Polish enterprise has become, partially by intent and partially against the intents of the creators of the concept of the socialist enterprise, the most important institution of political life in Poland. For the logic of the communist system is such that both the basic organizations of the ruling party and the "lower levels of the nomenklatura" are situated precisely in the enterprises. The same logic has resulted in situating there the manifestations of the political game and of social resistance and conflict. All this, taken together, has shaped the specific nature of the socialist enterprise.

Hence, the depoliticization [of enterprises] is necessary if the economy is to switch to the market-regulated model instead of remaining mired in the parametric or command-allocation system.

The second conclusion is consonant with numerous criticisms of the tax system. The state indeed acts like a suction pump in using taxes to deprive enterprises of the considerable resources needed to assure even the simple, let alone the expanded, reproduction of their assets—and in the process it penalizes most greatly the enterprises that are the most efficient. Thus the enterprises have neither the resources they need to modernize nor the "motive power" of social or even their own (the management, the party organization, the worker council, the trade union chapter, the opposition) incentive for modernizing themselves.

The depoliticization of enterprises and their operation in accordance with market rules may contribute to a gradual recovery of the lost two-thirds of labor productivity in the economy. The "remainder" must be contributed by the capital market in bringing about a restructuring of the economy.

We continue to operate in a centralized system, and the market is being regulated as if it were an instrument of central planning. Essentially, then, we are dealing with a kind of dual regulation. But a normal market cannot be

created on the surface of a centrally planned economy, because such a market must—as has been claimed and concluded for years—operate as a complete structure, that is, one entailing fundamental changes in property relations and the activation of a market in securities, or a capital market, instead of a pale imitation of such a market (e.g., in the form of bonds issued by a state-owned enterprise, which besides is most often a bankrupt one and for whose debts the state budget is legally not responsible, this being the acme of accomplishments in economic laws). Such enterprises, including state-owned ones, must therefore be genuinely bankrupt, and their assets should be auctioned off instead of administratively transferred to other enterprises.

An effective reform and a genuine opportunity to return to the road of social and economic growth consist in rejecting half-measures in the form of indirect and economically ineffective solutions of the parametric type, decentralization, and public participation in, e.g., the planning process and local self-government, and emphasizing more radical solutions. This means, in the opinion of the Club of Independent Experts, adopting the market mechanism and tolerating private economic activity. If the socialist system wants to survive, according to Janos Kornai, it is condemned to switch from suction to pressure, from chronic shortages to surplus supply on all markets.

So that it may happen, the scenarios for reform solutions must, gradually and painfully, extend to the entirety of the system in all its fundamental aspects, namely: to the doctrine and structure of political power, the legitimization of the authorities in a pluralist society, the approach to the allocation of resources in the economy, and rules for regulating economic processes.

The scenarios on doctrine, structure, and legitimization are being played out at the roundtable. The Club of Economic Experts will shortly draft its own economic scenarios (of allocations and regulations).

**POLITYKA Weekly News Roundup**  
26000539 Warsaw *POLITYKA* in Polish  
No 22, 3 Jun 89 p 2

[Excerpts]

#### National News

The government press office published a declaration declaring the intervention by certain individuals and institutions of the West in the election campaign in Poland an "unprecedented violation of Poland's sovereignty." The government calls for an "immediate halt to all forms of intervention by certain Western states and their citizens in the election campaign."

The Sejm voted to accept the government report for 1988 (one voted against, 24 abstained). Deputy Tadeusz Kijonka raised an interpellation on the fate of the property of the National Defense Fund. The president of the National Bank of Poland explained that the gold coins and pieces were melted down in 1951 and the other objects were transferred to the jewelry enterprise and to Desa a few years later, obviously for payment: 19 objects of historical value were donated to the Central Board of Museums. After this response by the president of the National Bank of Poland, a discussion began; the deputies were not satisfied with the explanations, and as a result a motion was made to have the Supreme Chamber of Control examine the issue.

The coalition of three parties and three Catholic and Christian secular associations has issued an election appeal. It says, among other things: "We see the source of strength in the state in the wise, coherent, determined observance of the law. We want to participate in the creation of laws as well as in the leadership of the state, together with anyone who respects these same principles, who acts in accord with the overriding interest of Poland, its reason of state." [passage omitted]

Zenon Gosciniak, the chairman of the Coordinating Commission of the Former Soldiers of the Polish Armed Forces in the West, met with journalists. He said, among other things, that in Poland there are about 16,000 former soldiers of the Polish Armed Forces in the West, of which 6,000 are organized in 19 local groups in 15 voivodships. Z. Gosciniak stated: "I am convinced that the majority of society shares the view that Poland must have a modern, mobile army, at least until others are willing to disarm completely." [passage omitted]

On 1 July 1989 the obligatory (legally required) insurance of animals against collapse and forced slaughter will end. According to farmers' proposals, they will be able to insure their animals on a voluntary basis by contracting with inspectors of the Polish Insurance Union.

Zbyslaw Rykowski, deputy government spokesman, in response to a question about what will happen if the candidates from the national list are not elected: "The provisions of the election law do state that if the candidates from the national list do not receive the required majority of more than 50 percent, they are not elected. Unfilled positions will then remain. Knowing society's mood, however, I reject such a possibility."

In its issue for 24-25 May 1989, TRYBUNA LUDU published (simultaneously with PRAVDA in Moscow) a document "Genesis and Beginning of the Second World War." It is the position of the Joint Commission of Party Historians of the People's Republic of Poland and the USSR.



A communique issued at the end of the exhumation at the cemetery in Otwock says that the remains of about 400 individuals, mostly women, were removed. According to initial study of the remains, they were probably buried in 1944-47; they were thrown into the grave in three to five layers at a depth of 1.5 to 3 meters; the bodies were naked; about 50 percent of them show signs of sections; so far no signs of mechanical abrasions or shots have been found.

The Association of Soldiers of the Home Army has been registered.

A few weeks ago, consultants from Krakow came out in defense of subscribers who signed a contract with Ruch for delivery of the press to their houses. As is known, at the beginning of the year, magazines ceased reaching apartments. ECHO KRAKOWA reported that a letter of the Ministry of Finance, announcing the initiation of an action against Ruch and the Postal Service for violating the antimonopoly law, reached the Krakow Club of the Federation of Consumers. [passage omitted]

#### On the Left

[Passage omitted] After a break of 35 years, an interview with Milovan Djilas (the author of the "New Class") appeared in the official Yugoslav press (BORBA in Belgrade). He was removed from the party leadership in 1954 and later imprisoned.

There has been a decline in trust in the government in Hungary from 88 percent in 1985 to 42 percent in 1989 and in the party from 66 percent to 24 percent. These results were reported in a survey by the Institute of Social Sciences and Sociology of the Hungarian Academy of Sciences.

In Estonia, the Supreme Soviet adopted in a nearly unanimous vote documents on economic accounting that assume that the union republic, part of the USSR, will direct its own economic processes, independently set the economic laws for its territory, finance its own expenditures, and that all units of the economic system will be subordinated to its principles of economic accounting.

The Supreme Soviet of Lithuania adopted a decision that henceforth only laws and legislation which were adopted or ratified by it will be binding in the republic. Four articles of the constitution were also changed. The land, mineral resources, water, forests, and other resources are the national riches and exclusive property of the republic. It stated that the fundamental legal acts of the USSR are binding only after their ratification by the Supreme Soviet of Lithuania.

PRAVDA in Moscow: "The official bodies of the Soviet Union are ignoring the proposals of the Baltic republics; these bodies are attempting with verbal gymnastics and

self-contradictory declarations to delay pressing economic reform. This will lead to the disappointment of the people in these republics in perestroika, to the appearance of centripetal forces, and to attempts to find ways of decisively freeing themselves from the dictates of Moscow and a strong center."

Peter Szanto wrote in a different vein about Kadar in the weekly ELET ES IRODALOM: "The old man deserved an honorable departure. He gave his name to an entire era. For many, what has happened has an unpleasant resonance. What we were waiting for has been done in an asiatic, barbarian manner."

The popularity of Soviet and Polish television in the CSSR is rising: while in 1982, 3 percent of the population watched Soviet television; in 1988, 14 percent watched it; in 1982, 10 percent of the population watched Polish television, and in 1988, 22 percent. Six percent watches GDR television. According to the survey, 27 percent of the population watches FRG and Austrian television. [passage omitted]

In 1988, about 48,000 Soviet Germans emigrated to the FRG. Generally, it is descendants of families that settled in Czarist Russia centuries ago who are leaving the Soviet Union. Many of them, bearing German names do not know the language of the land to which they are going.

The levels of some wages in the CSSR have been published. A minister earns 12,000 KCs monthly; a federal premier, 20,000. The people's councils pay priests and bishops a wage. The level of the earning depends on their length of service and position. A rank-and-file priest earns an average of 2,600 KCs; a bishop, 3,000 KCs. The average wage in the CSSR is 3,176 KCs.

#### Opinions

*Zygmunt Czarzasty, secretary of the PZPR Central Committee:*

(Interviewed by Jan Ruszczyc, FAKTY I KOMENTARZE 3 May 1989)

[Czarzasty] At the roundtable, the Polish governing coalition concluded a contract with the opposition on the nonconfrontational character of the elections. We will surely not break this contract. If however someone else attempts to break this contract, we will not accept it passively and quietly. We are saying this openly now.

What does the notion of nonconfrontational elections mean? It means that every force participating in them promotes its candidates without discrediting the candidates representing other political orientations, that no one formulates his program using lies and slanders, that even sharp election agitation cannot use group pressure or moral terror. Violations of these principles must encounter decisive resistance from us. [passage omitted]

*Ryszard J. Kurylczyk, first secretary of the Slupsk PZPR Voivodship Committee:*

(Interviewed by Leokadia Glusik, GLOS POMORZA 13-14 May 1989)

[GLOS POMORZA] What is your judgment of the current condition of the voivodship party organization?

[Kurylczyk] It is the same as that of all the voivodship party organizations in Poland. We are waiting on the development of events. But we are not waiting with "our weapons at our feet"; for example, in the elections to the Sejm and Senate, the members of the party must support specific individuals, and thus specific solutions, but generally the events of political life have been inspired, at least for the last several months, from above. Thus, this is a fairly strange revolution.

*Prof Dr Ryszard Bender, president of the Club of Catholic Intellectuals in Lublin:*

(From a preelection press conference, SZTANDAR LUDU 16 May 1989)

[SZTANDAR LUDU] You said that the Polish opposition has many names. What should be done to prevent these names from becoming enemies in the future and, thus, threats to the country?

[Bender] We must develop a political culture. We have a great gap in this area: two generations have no political experience; we are self-taught. We must differ; a Christian democrat will not be a national democrat. In the West, the opposition unites in order to match the government side; in fact, the government needs a strong opposition to force the government to act rationally and gain recognition in society. The principle of the opposition should be: in needs unity, in details freedom.

*Jerzy Rachowski, deputy chairman of the SD Lodz Committee:*

(Interviewed by Andrzej Gebarorowski, ODGLOSZY 28 May 1989)

[Rachowski] It cannot be precluded that the SD will someday find itself in a coalition with these new parties. That will depend on the development of the political situation, on the similarity of the programs, on the differences in the goals. We have not decided anything in advance. . . . The doubts concern the way the deputy seats were divided among the members of the coalition. We thought that only the entire coalition, or all three parties together should have a majority of the votes in the Sejm. That is not the case; more than half the seats will belong to the PZPR and the ZSL. As a result, the SD will not be able to tip the balance. There is concern about

whether we are an equal partner in the coalition inasmuch as little depends on us. Further, the loss of 10 seats is disturbing. All of the coalition parties lost some of their seats, but for us it is particularly painful, for we had only 35 of them.

*Gen Arms Czeslaw Kiszczak, minister of internal affairs:*

(From a comment at a preelection meeting in Naleczow, KURIER LUBELSKI 22 May 1989)

"The whole time we have been searching for reserves in the ministry. In conjunction with the very liberal passport policy, we want to reduce the number of Border Protection Forces by 50 percent. We will transfer a portion of the positions to the state, a portion to the militia protecting public order."

*Leszek Miller, secretary of the PZPR Central Committee:*

(Interviewed by Iwona Wcislak, GAZETA POZNANSKA 19 May 1989)

[GAZETA POZNANSKA] No one hides the fact that the party places some hope of rejuvenating its ranks in the Union of Socialist Polish Youth. Given this fact, how do you react to the rejection of the phrase "an ideological link with the PZPR" by the recent congress of this organization?

[Miller] I think that it is a symptom of the reigning tendency. Many are seeking ways to say socialism without using this word. There are many who fear the word socialism, although they do not want to resign from its accomplishments. Such actions reveal a shortsightedness and a misunderstanding of the situation. Current times demand clear, unambiguous positions. Those who are a little on this side and a little on that side will cease to be credible. The absence of this phrase from the ideological declaration of the Union of Socialist Polish Youth is an example of this fashion. For in the end, nothing has changed. With or without this formula, the Union of Socialist Polish Youth is associated with the leftist organizations and attached to the PZPR.

The opinions and views cited in this section do not always agree with the views of the editors.

## YUGOSLAVIA

### Economist Discusses Democratic Alternative, Kosovo Situation

28000130a Zagreb DANAS in Serbo-Croatian  
16 May 89 pp 13-15

[Interview with Dr Branko Horvat, Zagreb economist, by Marinko Culic: "Why I Have Become a Skeptic"; date and place not given]

[Text] For a long time now, especially in recent months, Dr Branko Horvat has presented himself as an interviewee ready to talk about the most delicate topics of the



country's economic and political life and capable of filling with interesting text even more space than we have given him in this issue. But when he offers a scenario for getting out of the crisis "in 1 year," as he did 2 years ago, and then a scenario "for 2 years," as he did a few days ago on Brioni, it is logical that at the beginning of the interview we should ask what happened on the already cloudy Yugoslav horizon for Dr Horvat to cut his optimism in half.

**Horvat:** What has happened is this devastating inflation, which is already 500 or 600 percent, and if last month's trends continue, we might end this year with 1,500 or perhaps even 2,000 percent, and that represents hyperinflation. But even if inflation were to remain at 500 percent, we would not be able in short order to bring it back to 20 percent, which is where rational behavior in the economy becomes possible: planning, the honoring of contracts concluded, orientation toward production rather than speculation, and so on. That is why I have had to revise the strategy for getting out of the crisis to say that inflation would be cut in half and production increased by 3 percent at the most during the 1st year, since no more could be done with this kind of inflation, and then in the 2d year inflation would be brought down to 20 percent, and production would be increased by some 5 percent. Only in the 3d year would we be able to bring inflation below 20 percent, and bring the growth of production up to 7 percent, which is—and few people know this—our normal rate of growth. Otherwise, there is nothing left to us but survival, and there is no question of reducing unemployment by restructuring the economy, more rapid development of the underdeveloped, and absolutely no question of any changes for the better. Inflation is nothing other than an index of the disorganization of the economy, and you cannot begin anything with a disorganized economy.

**DANAS:** Is it not, then, overoptimistic to expect that that kind of disorganized economy will increase production by 7 percent?

**Horvat:** No, that is a realistic expectation, and this would be done by taking several approaches. One of them is to extinguish the hotbeds of inflation, and here the rise of prices, Markovic is right about that, is not the true cause, it is the consequence. The hotbeds of this horror of inflation are above all the budget deficit, in which the off-budget balance has a large role, since usually it is not controlled. There are great debates over the budget, but here there is some kind of control, while few people even know anything at all about the off-budget balance. This can be best explained to you with one of the numerous daily examples: large enterprises which ought to go into bankruptcy avoid this worst of all fates by the director getting the workers to strike, so that money is found immediately. Well, that money has to come from somewhere, and this is that uncapped spring, or, if you like, the geyser of inflation which we have not even begun to shut down. A second hotbed are the exchange rate differences, and a third the uncontrolled

money market, and here I am not referring only to the printing of money—which can after all be controlled—but also to various substitutes of money, such as promissory notes, for example.

Last year, Dr Neven Mates, staff member of the Economics Institute in Zagreb, established that apart from all the balances examined by the SFRY Assembly, and what is more, fiercely debated, the money supply grew 20 percent, which immediately means a new 20-percent inflation, and much more than that with the multiplier effect. The last two hotbeds are the burden on the economy, which is growing steadily and which has reached 50 percent, and the deformed real rates of interest. Basically, it is a question of the lack of financial discipline on the part of enterprises and government agencies.

**DANAS:** They say that even the detachment of special troops sent to Kosovo were financed by printing more money. Do we know how much this "helped" inflation?

**Horvat:** Even before the Kosovo expedition, the budget deficit was a strong source of inflation, and there is no doubt that that expedition also hastened inflation. We could easily compute how much with the necessary data, but they are not accessible. But what I would like to particularly emphasize is that extinguishing the sources of inflation in the budget and elsewhere still will not "break its back." This is only like pouring ashes on the fire, and we should always assume that it might flare up again with a little breeze from one side or the other. That is why the next step is extremely important: that is the creation of economic conditions under which the economy as a whole spends no more than it can, and that can be done effectively with tax policy. Fifteen years back, I made a proposal, which not a single government has examined, to introduce a progressive tax on personal income at the level of enterprises, those paying their employees below the average would be exempted from the tax, and those paying above the average would be taxed progressively. A measure like that would mean that you have poured water on the extinguished fire, and only after that could you be certain that the fire of inflation would not blaze up again.

**DANAS:** But if it all comes down to this and similar measures, are we not, then, on the threshold of beginning to solve everything with government intervention once again?

**Horvat:** I do not see any danger of interventionism in this. Interventionism connotes some kind of arbitrary intervention of the government, and I am far from that. In a sensibly built institutional framework, let everyone freely make the decision he considers appropriate. But we still do not have those institutions.

At present, we are too much confronted with the bad role of the government in the economy and in the economic reform, so that everyone is oriented toward breaking

down that government blockade and glorifying liberalism. We should be aware, however, that liberalism in and of itself still is not a positive program and that that program still has to be devised after the government blockade has been broken.

DANAS: In view of all that, how do you evaluate the first steps of the new government?

Horvat: I cannot offer a complete assessment, since only 2 months have passed, and the new government is not releasing everything necessary to make such an assessment. I will speak, then, only at the level of impressions, and it is my impression that the new government has repeated the mistake which I mentioned, i.e., that it has restricted itself to breaking down the government blockade and enacting several new laws in order to create a new institutional framework, but at the same time it has been forgetting to resolve our key problem, and that is inflation. It has even come forth with an argument that is untenable: that the government lacks an anti-inflation program since all its measures are supposedly anti-inflationary. That might make sense if we had 3-, 4-, or 5-percent inflation, but when inflation is this high, then we need a very firm and elaborate anti-inflation program. I know that the government does not have a quality government staff it could rely on for several simultaneous actions, but still it could establish parallel institutions, a council of economic advisers or similar institution, so that following completion of the job which is now being initiated in the Assembly of Yugoslavia and which is undoubtedly constructive, some progress would already have been made. We do not have any more time: life simply becomes impossible at 1,000-percent inflation.

DANAS: So, can the way out be looked for exclusively in the measures of economic policy? We now have a devastating political crisis which is already creating abnormal business conditions, and until that ceases, can there be any serious talk at all about getting out of the crisis?

Horvat: I am also a skeptic. After all, just as you cannot have economic growth under the conditions of high inflation, you also cannot have it so long as the crazed political campaigns persist. That is in fact the real danger confronting Markovic: that is, of adopting a measure which will not be to the liking of this one or that one, and then they will begin to enumerate ancestors 10 generations back, put spokes in the wheels, and so on. No one can achieve any results in such a situation. Markovic proposed at the outset that he would not meddle in political problems, but I simply doubt that that is possible in our country.

Nevertheless, that does work in Italy, the governments change, the politicians squabble, but the economy pays no attention and goes forward. That kind of situation is called an organized chaos.

Nor am I a great optimist about Yugoslavia, but this time at least the Yugoslav public will see what our objective capabilities are for getting rid of irresponsible politicians once and for all.

DANAS: We are not sentimental in the least about our politicians; on the contrary; but are the struggles we are now having with the economic reform not related to the fact that all the reforms in the socialist countries to date have failed?

Horvat: What are called socialist countries have nothing to do with socialism. Those are statist systems in which the state is the absolute master of both political and economic life, and socialism is something quite different—a system in which the state is withering away not in some utopian sense, so that there will be fewer bureaucrats, but in the sense that there is less repression. It must renounce the control of society and devote itself to social services (health care, the schools, and the like), but something altogether different has happened in our country: the state has withdrawn in these areas and remained in the area of repression, where it should be least evident. Finally, we should understand that only a political system of radical democracy is suitable to a modern economy. Any tale about a vanguard in the present era is outright nonsense. We no longer live in the Renaissance in which a Leonardo da Vinci could cover half of the sciences of that time; 90 percent of all scientists in the last 5 million years have been born in this century. This is not a time of people who have a need to be led. The other thing essential to a modern economy is the autonomy of economic entities, who must at every moment have the possibility of new solutions and the infinite number of combinations demanded by present-day business. Any attempt to manage the billions of those combinations from some center is absolutely impossible. It was possible only in the days of the wooden plowshare, when the peasants knew that certain jobs were done around Saint Vitus' Day and others around All Saints Day. That is why our idea of worker self-management was not only exemplary, but also revolutionary, and you probably know that I also consider nonsensical the opinion that social ownership is an obstacle to development.

DANAS: You once said that you consider a "marriage" between an authoritarian political system and a liberal economy impossible. Now, however, there is every sign on our scene that such a marriage is just about to be concluded. Do you still think that it is impossible?

Horvat: I still do! Something like that is possible only in the capitalist countries, where the economy is sufficiently removed from the state so that a dictatorship is possible in politics and the market functions in an economy based on private ownership. Of course, dictatorships are not good even there, but it is possible. It is also possible in underdeveloped countries, where the need for more rapid development can postpone for a time the demands for democratization of political life.

But we are no longer at that level; let me recall that at the end of the seventies we reached the level of development which western Europe had in 1939.

Today, it is absolutely impossible to speak about any lasting, much less promising, liaison between an authoritarian system and self-management for another reason as well: whereas in the capitalist countries the state has no ambition to get involved in class differences, and so dictatorship relies exclusively on government power, not on the economy as well, in our case that it is impossible—here the dictatorship would immediately “spill over” to the economy as well, and social ownership would quickly be transformed into state ownership, and the market would die off.

DANAS: What do you think of the arguments that economic considerations have a decisive influence on the formulation of the programs of the nationalities, something which is increasingly evident on the Yugoslav political scene?

Horvat: That is only partly true, since when you analyze those programs a bit more closely you see that they are based on pseudointerests. Some 20 years ago, when the Federation began to fall apart, I and a group of colleagues at the Institute for Economic Science in Belgrade worked on studies on the topic of what a republic could do independently of the Federation, or what a city could do independently of the republic. It turned out that they could not do much of anything, that they could increase the percentage of economic growth by half a percentage point, by 1 percentage point at best. So that if it rises 2 percent annually in Yugoslavia, the Slovenian ceiling would be approximately 3 percent, and that is not really very much even over a period of 10 years. It is a different matter, however, when that growth in Yugoslavia is 7 percent, and that is why it is in the interest of the most advanced to bring Yugoslavia as soon as possible closer to at least 5 or 6 percent. After all, anyone who constructs a program that would be separatistic with respect to Yugoslavia will ultimately see that his alleged interests have nothing to do with real interests. Our problem is to lie together and to do this in a tolerable way. Otherwise, no one will be able to achieve progress.

DANAS: In Sarajevo, you recently singled out three nationalisms in the country—Serbian, Albanian, and Slovenian—as those which set the tone for present ethnic divisions. How would you substantiate that argument?

Horvat: When I singled out those three nationalisms, I was not strictly distinguishing them from other nationalisms, since I know from one prior experience of my own that that is not a wise thing to do. In the late sixties, I concerned myself quite a bit with Croatian nationalism and committed myself in public against that nationalism. I was inclined to interpret it in terms of certain historical conditions in Croatia, in any case as something ugly and bad for Croatia, since it seemed to me that

everyone else was trying somehow to fit into the Yugoslav integrity. It now turns out that the mass movement in Croatia was only the harbinger of what is happening today elsewhere, and in that context it is neither different nor worse, and it was only because of historical circumstances that it occurred there first rather than somewhere else. For example, had the central government been in Zagreb rather than in Belgrade, it is very likely that the mass movement would have emerged first with the Serbs and then with the Croats, not the other way around. It is a question, then, of an inevitable reaction and rebellion against a situation in which there are a centralized state and a centralized party—which in and of itself is not bad, since, for example, Sweden is one of the most centralized governments in the world and has had the same party in power almost without a break for half a century, yet the Swedes have a good and orderly life—but our problem is that this was a centralism of the authoritarian type, which was inherited from Bolshevik ideology, which our principal political leaders were mainly brought up on, and to some extent this is also a part of our Balkan situation. Only when we detect this environment of the authoritarian state is it possible to fully understand the phenomenon of nationalisms over the last 20 years. In the case of Croatia, which has had the longest legal continuity as a state, nationalism occurred on a wave of protest against that authoritarianism, but since in such situations the tone is set by people with irrational motives and arguments, that protest was not channeled in the direction of the country's democratization, but took the form of a typical Balkan nationalistic exclusiveness in which another count is taken of the Serbs and Croats and so on.

DANAS: Then came the cloudburst of Albanian nationalism.

Horvat: In that case, the conditions were quite different; that is, this is a young nation that is approximately where the Croats were under Austro-Hungary, when the Croatian students burned Hungarian flags and loudly declared their national allegiance. Every nationality must go through that puberty, but in the case of our Albanians the crucial thing was that in small nations it is related to an inferiority complex, and as a rule that complex takes the form of aggressive behavior. That kind of behavior cannot, of course, be tolerated, and that Albanian rebellion was followed by the Serbian rebellion, and the latter was compounded by the fact that Serbia had not been optimally organized, with that “worthless arrangement” of the provinces which was legally untenable, and added to that there were the myths awakened about Serbia which liberated Yugoslavia (which is not so) and which suffered the greatest casualties (which is so). All of that, given the general crisis in the country, resulted in a widespread feeling of frustration which kindled the Serbian mass movement, on a considerably greater scale in fact than in Croatia.

DANAS: What do you base that conclusion on?



Horvat: There are several reasons for it, but I think it is sufficient that Croatia's most distinguished politician of that time was not part of the mass movement; what is more, he vigorously resisted. In Serbia, it is the other way about: there, the most exposed politician is at the head of such a movement, and that is why it has taken on unthinkable proportions, doing the greatest harm to the Serbs themselves, since this has provoked an anti-Serb disposition throughout the country. Yet in Kosovo, all ties have been severed between the Serbs and the majority population, and I think that there is no question anymore about a return of the Serbs to Kosovo; rather the reverse, more of them will move now than ever. Where do I see the way out of this situation? The way out lies in democratization of Serbian political life, since this is the remedy that is guaranteed to work against nationalism—there is no such thing as democratic nationalism!—and that applies not only in Serbia, but also in Slovenia, where nationalism is emerging as a reaction to majority rule, and then also in Croatia, where also there would be no grounds for it to develop.... Only in Kosovo should nationalism be dealt with in an essentially different manner than up to now. That is the most desirable scenario. A less desirable scenario, one which I am a bit afraid of, is that of Milosevic and his assault troops, which have been dividing the victor's booty in typically Balkan fashion, moving into the villas, sharing out the government and ambassadorial posts and the like, deciding to continue to fan the flames of Serbian nationalism, since this is the only way of staying in power, and demonstrating that they are quick and clever at doing it. In such a situation, the country would face a great danger, since we do not have a government leadership which could resist that, and if anyone can oppose it, then that could only be the Serbian intellectuals.

DANAS: Do you not have the impression that the Serbian intelligentsia, which recently has begun to put the question of democracy to the highest Serbian leadership, is still maintaining reserve toward the Albanians in Kosovo?

Horvat: That is true, and that is exactly where one can best see the irrational moment which set Milosevic in motion: he never could have managed to mobilize Serbia to this extent nor to stand firmly at its helm had it not been for Kosovo. But if a process of democratization occurs in Serbia, it will probably take place in parallel and in contact with similar processes in Croatia and Slovenia and elsewhere, and the democratic pressure will thereby become so strong that these irrational factors toward the Albanians will not be tenable.

DANAS: You have mentioned a series of rebellions that occurred against the authoritarian centralism of the seventies and eighties, but now we seem to be witnesses of the opposite process: that the largest republics are beginning to be spokesmen for that authoritarian concept rather than opponents of it.

Horvat: At the moment, there is a very interesting "coalition" between the leaders of Serbia and Macedonia, but what links them now is merely an uncooled discontent in the leadership toward Albanians, which is why that coalition cannot last long. Which is why the momentary motives of such tie-ups are not so essential, and the much more important thing is that they generate nationalism over the long run in Yugoslavia, and I have already said something about that. I would particularly like to emphasize in this connection that not a single dictator has ever survived in the history of the Serbian people and that the Serbian people is not authoritarian by nature, but freedom-loving. I emphasize this because in the long run one can only work with the people: they can be deceived for a short time, as Milosevic has done, but in the long run no policy can be conducted without them. I do not, of course, think of the people as an amorphous mass. And how has Milosevic actually carried out his deception? Quite simply, using the tried and true recipe, which "has worked" in other countries as well in situations of mass frustration. There are four things you have to do to become a leader: First, you have to proclaim that your nationality has been unfairly condemned to the situation in which it finds itself by some international or other treaty, then you have to argue that your nationality is surrounded by plutocratic nationalities exploiting it, then you have to find some perfidious internal enemy toward whom you have to direct the general enmity and a desire to eliminate him, and finally, you have to achieve full control of the press (there was no television in the past) so that you can use it to launch all of these lies. In the order in which I enumerated them, the following have been "turned" against Serbia in this case: the 1974 Constitution, Slovenia and Croatia as exploiters, the Albanians as the internal enemy, and the yellow press is the press of the Belgrade republic. Nevertheless, the key condition for any prolonged success is lacking: Serbia is only a part of the state, not an entire state, as has been the case with the historical precedents.

DANAS: But in this case the "internal enemy" has problems not confined to Milosevic. The special measures in Kosovo were instituted by the SFRY State Presidency.

Horvat: Yes, but the people sitting on it have no reputation in the country except perhaps in certain circles of their own nationality. These people have cut a deal, and the result of that deal was the sending of troops, which seriously hurt the prestige of the Yugoslav Armed Forces, which were formed as a liberation army, and now it has been reduced to the Latin American role of the regime's policeman.

DANAS: So, according to you the fate of Kosovo has been "sealed" in the worst way?

Horvat: I do not say that it has been sealed, but it has been considerably hampered: the sending in of armed forces and police was unnecessary and, what is more, has caused immeasurable damage.

DANAS: But this is interpreted as a defense of Yugoslavia.

Horvat: That is, of course, the interpretation. The facts indicate something quite different: with extremely well-disciplined demonstrations in the fall and the miners' strike in the winter, the Albanians showed that they have achieved political maturity. What frightened me personally was that they would give in to the pressure of the nationalists as in 1981, but that did not happen. This was a valuable occasion, but it has been ruined by the repression. What is more, that repression is even using unconstitutional means.

DANAS: What, then, is the long-term solution of the Kosovo drama?

Horvat: For the moment, none. However, it is still possible in the foreseeable future to institute a federal civilian administration, as has been proposed by the Association for a Yugoslav Democratic Initiative. Now, Milosevic will certainly put up a tough fight against such solutions. He considers Kosovo his greatest triumph and will not give it up easily. Another possibility is the democratization of Serbian political life which I have spoken about.

DANAS: Now that you have mentioned the UJDI, how do you evaluate the possibilities of a democratic and antiauthoritarian alternative in the country based on the initial experiences of the association?

Horvat: As you know, they refused to register us in Croatia, which is an outright cultural shame which threatens Croatian politics with a political disgrace that every politician with any intelligence at all would have to avoid. In other words, having failed to encounter understanding here in Zagreb, we decided to register in the first community which would have us, and our members in Belgrade and Ljubljana have already taken steps to register us there. The way things stand now, there are fair prospects for us managing to do that in Belgrade and virtual certainty in Ljubljana. So that now a kind of competition in democracy is beginning. Up to now we have had competition only in nationalism, in ideological exclusiveness, and the harshness of bolshevism and similar things. Now, for the first time there is competition and rivalry in democracy in Yugoslavia. If we manage to stay on that road, there will be real possibilities for resolving our problems that we spoke about earlier.

#### **New Croatian Political Group Opposes LCY Leading Role**

28000126 Zagreb VJESNIK (PANORAMA SUBOTOM supplement) in Serbo-Croatian 27 May 89 pp 4, 5

[Article by Jadranko Sinkovic: "Alternative to Party Arbitrariness"; first paragraph is VJESNIK introduction]

[Text] The HSLS [Croatian Social Liberal Alliance] is a political party that does not hide the fact that we must

seek the principles of civilized development for our society in a break with the bulk of the regime's experiences.

It is almost incredible how readily the citizens of Yugoslavia would agree with the statement that in the past few years we have virtually ceased to participate in the life of modern civilization in all basic sectors of social, political, economic, and cultural life. The prospects for the future are even more frightening than the current situation.

It is precisely for this reason, feeling the burden of life in this country, that there has not been a serious political initiative, movement, society, potential party, or even general political idea in the last year which did not begin to construct its more or less complete political program with an evocation of this feeling that civilization has passed us by. The nuances differ in those evocations: while some assert that the principles of the entire social structure we live in are anticivilizational, others will content themselves with warning about the anticivilizational prospects awaiting us if we continue on with the same madness, in which there is obviously considerable method. And while the second group of activists will restrict themselves to political initiatives as a form of action, striving merely to reveal the "madness" and to treat the strained ligaments of society by means of more or less tight bandages of domestic manufacture, the former will look for political solutions in the proven experience of the developed—i.e. the Western—world. It seems to us that there have been more and more of these lately, and recently Croatia has witnessed the foundation of a political party that does not hide the fact that we must seek the principles of civilized development for our society in a break with the bulk of the basic elements to which the structure of the Communist regime of the New Yugoslavia gives rise. This party is the Croatian Social Liberal Alliance, which should soon become a legal entity if it makes it through the procedure in the Republic Conference of the SAWPC [Socialist Alliance of Working People of Croatia] and in the Republic Committee for Administration and the Judiciary.

#### **Transformation of the Socialist Alliance**

By all indications, it appears that there will be no problem with registration, because it was decided in the preliminary procedure that this is a legitimate citizens' initiative. The founders' practical wisdom is apparent, however, in the fact that from the very first moment they have favored the tactics of a measured and gradual "conquest of power," through the legal institutions, above all through the Socialist Alliance of Working People of Croatia. That is why they included in their program the statement that they want to transform the SAWPC into the Mass Alliance of Equal Political Organizations. Abiding by the constitutions of the Socialist Republic of Croatia and of the SFRY, they will propose constitutional, political, economic, and social reforms aimed mainly at solving the acute universal crisis of



Yugoslav society but also at laying the foundations for lasting prosperity for all citizens. That undoubtedly means that the HSLS, working within the framework of the legal institutions, will strive for basic change in Yugoslavia's political structure and will certainly seek, by means of constitutional amendments for instance, a national referendum and direct vote for or against political pluralism, a multiparty parliamentary system, the equality of all forms of property, the elimination of landholding limits, etc. Undoubtedly the HSLS will take on all the key political suppositions in the Yugoslav constitution.

It is interesting that recent political programs and proposals for general reform coming from the ranks of the LC [League of Communists] in Croatia, Slovenia, and Bosnia-Herzegovina are identical in fundamental strategic elements with the ideas of the HSLS, for example. We are all, without exception, for a free market in goods, for political pluralism and political democracy, for federalism based on consensus, and for the rule of law. The question is, however, do those words mean the same thing to all of us?

In other words, when it talks about political democracy, does the League of Communists really intend to give up its constitutionally prescribed avant-garde or leading role in society? The HSLS, for instance, is clear in this regard. It is for eliminating that stipulation because it renders it impossible to establish the rule of law and makes ideological monopoly and party arbitrariness the final regulator of society, and that, along with other, no less important causes, has led us—as analyses show—to a state of total sociopolitical and economic ineffectiveness and hopelessness. The League of Communists of Yugoslavia, however, contains such discordant and indeed politically divergent elements that it is a very real question whether it is actually capable of carrying out fundamental political reforms or whether all those principles the Communists are for will once again remain just empty words spoken on the political podium.

#### **Anti-Communism and Anti-LCism**

That certainly is the source of the HSLS's unique anti-Communism. Or, since anti-Communism is evidently a difficult word, even a "hostile" or who-knows-what one (which also testifies to the ballast from our long lack of political democracy), it is more friendly—but also more precise—to say that the HSLS's orientation is primarily "anti-LCist." The fact is that the HSLS is against a monopoly on power by any party because it feels, in the light of universal historical experience, that a one-party system limits freedoms, makes competition impossible, and leads to the ossification of the mechanisms of (party) power. The sole solution, therefore, lies in direct elections and in the introduction of political freedoms! The HSLS sees the achievement of this goal as the victory rather than the defeat of the League of Communists, although in politics who can say where the limits of truth lie and where the limits of demagoguery?

The HSLS's philosophical goal, which finds practical expression in its political program, is to realize the individual as the highest value. The HSLS program for creating such a free and socially secure individual (every individual!) calls for establishing the physical and intellectual inviolability of the individual; for establishing civil and political freedoms; for legal and social security ("the law is the highest norm of behavior and the judiciary is independent"); for the freedom of individuals to associate according to their own convictions and needs; for establishing the rights of all—individuals and legal entities—to own property; for free access to the entrepreneurial class; for banning any political or other program that advocates or carries out violence or national, religious, ideological, political, or racial intolerance; and for the establishment of the labor, legal, and social equality of the sexes. The goal is a welfare society such as has already come about in the most developed democracies through evolution based on enterprise, education, science, moral responsibility, and labor, rather than on revolutionary violence. Naturally the final goal is total integration into the technological, economic, scientific, and cultural life of Europe.

#### **Confederalism and Nationalism**

Many are already concerned in advance, mainly unofficially, at the possibility of an escalation of nationalism or similar tendencies within the HSLS. However, there has not been much public discussion of this—at least as far as this journalist is aware. The HSLS's Programmatic Declaration starts out from the thesis that the national question in Yugoslavia can be resolved only by federalism founded on consensus, with the nations having the right to self-determination and secession. Undoubtedly such a view is closer to confederalism; that becomes even clearer from the HSLS's view that "the federal institutions should be authorized to deal only with what is agreed by consensus, while everything else would be the responsibility of the republics." The HSLS will favor "expanding parity and consensus in all sectors of federal legislative, judicial, and executive power, while the administration, organized on the basis of parity, must adopt the organizational principles of modern states." But confederalist intentions are not the same as nationalism and, anyway, in a political democracy we must discuss even that without getting stirred up in a friendly or hostile way. Within the HSLS the one who has said the most about nationalism is the elected chairman of the HSLS Council, Slavko Goldstein. (It is interesting that Goldstein received fewer votes in the election than the elected deputy chairman of the Council, Vlada Gotovac; by the way, there were not multiple candidates for the officers' jobs so it appears that the concept of internal democracy within the HSLS is somewhat narrower than the concept of democracy in society.) In Goldstein's opinion the main source of nationalism, particularly of the aggressive type, is simply the absence of political democracy. It seems, however, that this will remain just a hypothesis until we enjoy full democracy.

### Genitive Case and Fear

However, many were concerned at the evident euphoria of national consciousness expressed at the HSL's founding conference. Can that be viewed as a sign that the national element could overcome the social liberal tendency in the new alliance? Probably that is a real possibility. All the more so since it is currently the only political party in Croatia that includes the adjective "Croatian" in its name. It was emphasized that this was from the conviction that one must not be ashamed of being Croatian, one must not accept the feeling of guilt imposed on us for that adjective. The adjective, they said, is supposed to express the political emancipation and awakening of the area which is the homeland for Croats and for Serbs and for other nations and nationalities. The use of the genitive in the name (i.e. "Social Liberal Alliance of Croatia") would mainly be an expression of the "culture of fear" in which whole generations were raised after the war.

It is indisputable that national passions are present in the HSL. Of course that could be for a number of really marginal reasons. In all probability once there is room for political pluralism (and for establishing frankly national parties, societies, movements, communities, etc.), that will put an end to a situation where for now the HSL will serve as a political refuge for one and all—in other words, for excessively divergent political tendencies. An oppositional coalition may be a good way to win power but the experience of the developed democracies demonstrates what troubles and restrictions it can lead to later.

In any case, we hold that it is a good thing that the political scene in Croatia and Yugoslavia has been enriched by a political alternative. After all, alternatives have always been the way to change opinions. Without them, the only thing that remains is—the imposition of opinions and to have civilization pass us by.

### Idea of Electing Chief of State Rejected

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SUBOTOM supplement) in Serbo-Croatian  
20 May 89 p 1

[Article by Vlado Rajic: "President of the Republic—Yes or No?"]

[Text] The practice of the functioning of the collective head of state adopted in 1971 under Constitutional Amendment 36 and formally confirmed by the Constitution 3 years later has been continued with election of the new SFRY Presidency. Once we cast aside certain reactions in the realm of day-to-day politics to this act (especially the attention that followed election of Dr Janez Drnovsek as the Slovenian candidate to that post, the election campaign, and the outcome of the referendum in the native republic of the new primus inter pares of the state) there remains the assessment that has been made that "on 15 May a historic opportunity was missed

to make a major political change of direction on that day and elect a president of the republic instead of the collective head of state in the chambers of assemblies."

Thus a political event which in and of itself attracts the curiosity of the domestic and world public (insofar as the world is interested in Yugoslavia these days) was turned into the first real and altogether official opportunity for promotion of an idea which up to now has emerged on the very outer edge of the stormy political climate. Experience gained concerning certain other topics and areas indicates that we should anticipate the rapid growth of that idea very soon and its gradual climb to the height of interest—and then probably a conflict, passions, and polemics.

At a time when appealing to certain past elements of the system is something altogether normal, it was only a question of days and occasions for the debate to begin on whether it makes sense for Yugoslavia to have a single person heading the state once again. That institution, incidentally, is an inseparable part of the constitutional system adopted 26 years ago and there was no talk about any collective head of state, at least not in public.

That being the case, the logic of the system adopted in 1963 must be respected even today, especially since certain currents in domestic relations are moving precisely in line with the aspirations of one part of the country to take Yugoslavia back to that system. Why? With respect to the party, that was the time of the command-style party with a very strong, authoritative, and powerful leadership at the top. With respect to the economy, that was a time when the economic reform was only being reflected on and in which the distributive economy gave the impression that it could be applied indefinitely and that its results were effective. From the standpoint of society, that was a time when everything crucial and fateful for this country occurred in the relation between the top leadership and the base, a relationship in which the top leadership (government, party, parliamentary, trade union, economic, and so on) had unlimited power to create, and the base was authorized to carry out the decisions.

### Rehabilitation of 1963?

The process of rehabilitating 1963 as a model of the government system and the relations in it in all respects began when war was declared on the republics and provinces as being statized, alienated, and then in the more recent past of being ethnic bastions of the bureaucracy. The basic thing that can be singled out from that process is the demand for abolishing the evident differences in level of development from one community to another. They can be abolished only if one place is advanced in which "a judgment will be made" as to who is to get how much. Since the collective head of state for the moment, the consensual spirit of the SFRY Assembly, and the polemical character of decisionmaking in the SFRY Presidency and the Presidium of the LCY

Central Committee are not in line with that concept, it is logical to insist on finding a way of creating a place in which one person would have the constitutionally prescribed power to make such "decisive" decisions. What solution would that be? Well, the president of the republic, of course.

One particular dimension of that proposal is the attitude toward Josip Broz Tito, with whose departure from the scene the institution of president died out. We should not overlook the fact that Tito was not only the head of state, but also the head of the party and the commander in chief of the armed forces. All of that was under the substantive legislation of that same year, 1963, and on 4 May 1980 all of those positions went to different people. But this shows that ambitions to take the place of the commander in chief in the style of Tito's time are not trivial and cannot be dismissed with an observation about morbid ambitions. Holding in one's hand the state, the party, and the army is the normal consequence of historical revitalization (and insistence on it) of a time in which that was the normal thing.

The current political situation demonstrates that such ambitions do exist on the domestic political scene, that candidates have even been promoted with that position in mind. The very proposal, in the sea of other proposals that have been made out of an endeavor and an "endeavor" to overcome the present situation, would not arouse particular attention if the first practical steps had not already been made toward accomplishing it, and still more if the economic and developmental situation in the country still bore some resemblance to 1963. The simplest would be a decision on decentralization, a decision to expand the self-management system even to key government decisions, and to explain the parliamentary mechanism with an attempt to bring responsibility for one's own economic and political prosperity to that point which is the only one where it can be achieved: to individuals and to the economic association of individuals. The decentralization of the system and its gradual degovernmentalization have not been achieved. All the subsequent changes of the system in attempts to design a system that would make that possible came to naught over the fact that the project was ideologically burdened insofar as its ideology was not a lever of development, but a brake on it. The economy—organized on the one hand after the model of the party organization and on the other adapted to the structure of the commune system—simply had no chance either at any kind of enterprise or at assuming its own economic responsibility.

But realization of this in these years of crisis still did not urge the system's future development in accordance with the basic idea that was conceived with all the restriction of the system in 1963, and then changed phase in 1974 with the constitutional solution adopted at that time. It was much easier to go into the junk dealer's shop looking for a system and then find "effective" solutions on the dusty shelves. After all, at that time there really was no \$20 billion in debt, there really was no Kosovo problem

in the form in which it has weighed down on us for all of 9 years now, there were no votes in the parliament and skirmishes between the republics, nor were there vain plenums that people dared to write about as such in the newspapers.

### What Is Being Kept Quiet

The key thing that is being kept quiet in this "line of argument" is the essential structural difference between the Yugoslav economy then and today, the difference between the country's level of development and that of those parts of the country which even today are far ahead of the SFRY, and especially the differences that have come about within the country. No mention is made of the fact that the country was at that time on the threshold of an important economic reform and that one of the reasons for the failure of the economic reform was the retention of that same arsenal of government regulation which is being offered today as the "salvation" that will take us out of the crisis.

Although it sounds a bit forced, the initiative for re-institution of the position of president of the state is founded on the empty pocketbook and the realization that in spite of all the restrictions imposed by the system and other restrictions that pocketbook is not equally empty in all parts of Yugoslavia. Much more serious is the assertion that that proposal is based on the ever more obvious revisionist aspirations that have been realized experimentally in certain parts of the country. The revision pertains above all to prevention of the economic reform along the agreed route of the market and its coercion, competition, and abolishing the right to siphon money over into the treasuries of those who refuse, do not know how, and are not willing to accept those principles as the cruel world of production in which poverty is not a consequence of historical destiny of a particular people, but the pragmatic outcome of poor production.

Location of this initiative exclusively in the world of economics and business is no accident. The political war in the country in fact began on the basis of the repeated assertion that one people was being robbed by another people, by other peoples. That position first had to be proven in the political sphere, and the first steps in that evidentiary were in fact taken in the form of the constitutional amendments, the demands for critical reassessment of the system, the assertion about the inequality of the federal units, and so on. The next step, again a logical one, was for economic dissatisfaction with low pay to be explained precisely in terms of those systemic defects in statehood. However, if those defects have now been corrected, the economic dissatisfaction has not been corrected, but has only partially been offset by printing more money to pay to the workers. So now the next step has already been announced and has to do with the "necessity to amend the country's constitutional



document as a prerequisite for economic reform and for eliminating those conditions of the system which today stand in the way of higher earnings."

Would it all have been easier if only one head of state had been elected on 15 May instead of a collective president? At this time and under these conditions, the answer is definite and negative. After all, if all the differences of Yugoslavia are simplified down to two basic fractions, and if we assume that there would have been several candidates from both sides for that position, who would have won? The outcome of that vote is already being prepared with the insistence on a political system in which the principles of "one man, one vote" would prevail, in which extrainstitutional pressure of the people is regarded as a normal consequence of bureaucratic domination and then also a justified means of destroying that domination by the method of force and pressure. The general disposition of Yugoslavia and the substantive system stand for the moment along the road of that aspiration. That is why we can expect that the idea of the president of the state will be only a part of the pressure to amend the federal Constitution in the direction of creating a disposition and a new promise of prosperity if that is done.

**Serbian Policemen Held for Arms Smuggling**  
*28000121b Zagreb VJESNIK in Serbo-Croatian*  
*14 May 89 p 6*

[Article by Kosta Cakic: "Pistols in the Vacuum Cleaner. Arms Smuggling"; first paragraph is VJESNIK introduction]

[Text] Even though they lived quite well, the Niksic policemen who were smuggling arms to Kosovo do not appear to have aroused the suspicions either of their superiors or of those they lived and worked with.

They're blackhearted.

They sold their nation and their country right when the times were toughest—these are the words of the citizens of Niksic and all of Montenegro. Hardly anything else in recent years has embittered them like the news that eight members of the SUP [Secretariat for Internal Affairs] in that town, with the help of some civilians, were smuggling arms to Kosovo, selling them for hard currency. By all indications, the purchasers were Albanian counter-revolutionaries.

Many people in Montenegro feel that today there is no greater sin an officer of the public security service can commit than to sell arms to those who use them to imperil the constitutional order and destroy the achievements of the revolution. Although probably aware of this, the smugglers dispatched pistols, regular and semi-automatic rifles, and even a machine gun to Kosovo over a long period. Thus the initial reaction to the news was disbelief in many people, especially in Niksic, a city which was among the first in Yugoslavia to announce its

solidarity with the Serbian and Montenegrin victims of the Albanian nationalists and separatists. The gang of smugglers is now in pretrial detention waiting to be brought before the court along with the civilians who aided them in this business.

**Gang of Smugglers**

As in every illegal activity, especially of this nature, this gang had a leader. The preliminary results of the investigation indicate that this was Petar Ilic (43), born in Duga (Niksic), inspector for weapons in the Niksic SUP. He issued 11 false gun permits and used them to purchase the first pistols in the Srdac store and in a department store. He issued the permits in the names of the SUP noncommissioned officers in Niksic.

Certainly he would not have done that if he had not known in advance what he intended to do with those pistols. Knowing that for obvious reasons there is a demand for arms in Kosovo, Ilic dispatched the pistols he had purchased to that province. After all, it was an open secret that pistols fetched the best prices in Kosovo, with payment in hard currency. Ilic found just what he needed in policeman Ljubomir Dzeverdanovic—an associate who was very familiar with conditions in Kosovo. Dzeverdanovic was born in the village of Ras-tovid (Decani) and had also served there as a policeman and was very familiar with conditions there, including everything to do with the sale of smuggled arms. It still remains to be established how many pistols were smuggled into Kosovo but it is already known that the price for pistols on the market there ranges from DM 1500-2500. It still is not known when and how the other actors in the affair became involved in this dirty gang. They are Momir Golubovic (38), commander of the police post in Vilusi (Niksic); Milisav S. Milic [as published] (32), policeman; Mileta M. Zecevic (31), policeman; Branko M. Kovacevic (34), police technician; Milan P. Mitrovic (37), crime prevention specialist; Slavko B. Vucic (27), policeman; and civilians Becir Hereci (50), a contractor from Djakovica resident in Niksic; Drago S. Terzic (35), a worker at the Boris Kidric Steelworks; Predrag B. Glusica (30), a student at the Economics Faculty in Titograd; and Radivoje Roganovic (31), a worker at the Gornja Zeta power plant. All of these are said to have belonged to the gang which was involved in smuggling arms obtained in various ways and which perhaps was able to operate successfully for so long precisely because of the fact that the majority of the group were officers whose duty it was to combat illegal arms trafficking. And yet they were caught.

**Uniform as Cover**

The group obtained arms in a variety of ways. It has been established, for instance, that they took 23 rifles from the rifle range in Niksic, one of which was found in Glogovac, which is proof that others also reached Kosovo by that same channel. They sold pistols confiscated by the service from civilians and World War II rifles purchased

from Drago Terzic, a crane operator in the steelworks; as scrap steel they were intended for the foundry there. Milisav Milicic found an even easier way: he appropriated two police pistols and a semiautomatic rifle and even tried to sell a broken machine gun!

Not all the details connected with the case have been released yet. Judging by what was said at the SUP staff meeting in Niksic, it is possible that the net spread by the honest part of that service's staff in Niksic has not caught all the smugglers and their helpers.

The investigation is focusing on the person of Ljubomir N. Dzeverdanovic, who as we have already said came from Kosovo. It is said that he transported most of the arms intended for sale in Kosovo in his car, and that whenever he was going to Kosovo, he would tell his colleagues at work that he was going to visit his mother. He also claimed that the Albanian irredentists and separatists had driven him out of Kosovo, which won him the sympathy not only of his colleagues at work but also of the civilians who got to know him in Niksic. He smuggled the arms in by covering them with the food he was supposedly carrying to his mother; on one occasion he concealed three pistols in a broken vacuum cleaner his wife was carrying. Since he wore his police uniform on all his trips to Kosovo, he had no difficulty in getting through all the checks.

The colleagues who remained honest are now trying to analyze Dzeverdanovic's every move since his arrival in Niksic. Since it has emerged that he was the main conduit by which arms were smuggled to Kosovo, it is suspected that his role in all this was far more complex and dangerous than merely arms smuggling. At the SUP staff meeting in Niksic, former colleagues Mirko Nikcevic, deputy commander of the police post in Niksic, and policeman Obren Kljajic said outright that they feel he was sent there by the Albanian nationalists and irredentists and it is clear what that would mean. Naturally the investigation will have to check out this suspicion as well. If it proves correct, the entire case will take on an even uglier dimension, one which will give cause for additional questions about certain persons' vigilance or lack of it.

Above all, one wonders how it was possible for this group to operate so long without anybody asking questions, even though there was cause for suspicion? Who failed? The immediate superior of the arrested policemen or some other person with more direct responsibility for monitoring this sort of activity on the part of civilians and officers?

### Prodigal Life

We all know how poorly the people who work for the SUP are paid, particularly policemen. Thus any rapid change and improvement in their standard of living should have provoked the suspicions of those they lived and worked with. How is it that no one in charge in the

Niksic SUP questioned how Ilic, Milicic, and Mitrovic had Mercedes automobiles when many of their colleagues drawing the same pay barely made ends meet? Where did Dzeverdanovic get the money he lent to others and spent in bars? Did nobody really notice that?

In connection with this, someone asked at the aforementioned SUP staff meeting in Niksic where the state security people are now who, as we said, were friends of the arrested policemen and saw with their own eyes that they were spending far more than their pay? Why did nobody check where they got that money? This question was asked by the head of the SUP in Niksic, Danilo Kostic, but he ought to be asked the same question himself. And not just where some of his subordinates in the SUP got so much money.

It is obvious that there was a general lack of supervision by the noncommissioned officers and all those charged with enforcing service regulations in the Niksic SUP. If there had been supervision, Milisav Milicic would scarcely have been able to sell two service pistols and an automatic rifle issued to him and have nobody ask him where they were. They say it was enough for him or someone else simply to state that a service pistol had gotten lost and they would immediately be issued a new one. What happened to the legally mandated arms inspection of the SUP staff which their noncommissioned officers are required to carry out at specified intervals? It is said that Petar Ilic would use his false gun purchase permits to buy four pistols in a single day in Niksic stores and yet nobody found that suspicious. Undoubtedly all this encouraged the group of smugglers to go ahead with their dirty work with impudence and not wonder whether perhaps those very weapons had killed or wounded one of their colleagues during the disturbances in Kosovo.

The group of smugglers could not have struck the service by which they were employed a heavier blow than they did. And at a time when that very service, for reasons we all are familiar with, is going through a serious crisis in Montenegro, which it is attempting to resolve by means of an internal purge.

**Slovene View of Yugoslavia's Future Analyzed**  
28000124b Zagreb VJESNIK (PANORAMA  
SUBOTOM supplement) in Serbo-Croatian  
20 May 89 p 3

[Article by Stane Pucko: "Declarations Are in Fashion"]

[Text] While in Belgrade they are racing to see who will be the first to publish the memoirs of some general, in Ljubljana at the moment it is a competition of declarations that is in fashion. Because of the threat to republic sovereignty and because of the ever more present aspirations to turn Yugoslavia into a unitary state, in Slovenia—the assessment—the time has come to state clearly what kind of Slovenia the Slovenian people want and what kind of Yugoslavia they are ready to recognize



for their common homeland. A declaration of that kind, then, ought to be an announcement and warning to all who are including the destiny of Slovenes in their calculations without the knowledge and consent of this republic's citizens. At the same time, such a declaration should be a kind of manifesto that would be supported as in a plebiscite by the entire people or citizens of Slovenia, that would rally around it all the forces in the republic, and that could be a sufficiently firm point of support for suppressing various movements, that is, to tame Slovenia and cast it in the mold of some new vision of a unitary Yugoslavia. Such a declaration, accordingly, should be a concretization of the already well-known thesis that Yugoslavia is the common homeland for Slovenes, but not just any Yugoslavia.

The sense of being threatened and of pessimistic views of the future of Slovenia and Yugoslavia has culminated in connection with the events in Kosovo, especially in Stari Trg, and then there was the meeting in the Cankar Center and the joint statements of all the relevant political forces in the republic in which they issued an appeal against adoption of extraordinary measures and in favor of peace and coexistence in Kosovo. What is referred to as a Slovene political coalition was created around the statement, and the official political alternative soon agreed on the text of a joint statement and placed their signatures beneath it.

This was a surprising, but also logical, move, which, to be sure, can be called a republic consensus or indeed homogenization of the nationality, but probably the most authentic interpretation of this gesture would be that this was a specific project that was supported on behalf of the citizens of Slovenia by pluralists with political power, as was rapidly confirmed by the signing of the statement by masses of people throughout the republic.

A coalition, then, was created which promised constructive cooperation on the development of Slovenian society, and it is logical, then, that an attempt should have been made to maintain or perpetuate that situation. Coordination among the signatories of the statement that issued from the Cankar Center was set up. Joze Smole took over concern for its functioning, and just a few days after the meeting in the Cankar Center the coalition was already sitting down at the same table and agreeing that still another special joint statement should be prepared to offer the public in more definite terms a Slovenian option for Slovenian and Yugoslavian society, that is, for its future.

#### **Mikeln Now Has a Competitor**

The task was turned over to a special group headed by the writer Milos Mikeln. A draft text was prepared, but still there was no new meeting in the Cankar Center. Obviously, all the attacks which came crashing down on Slovenia following the meeting in the Cankar Center nevertheless did not have such dramatic effects as the

events in Stari Trg, so that coordination of the coalition was utterly unable to quickly agree on how the new joint statement should look, a statement which had already been given the name of a declaration and was supposed to express the Slovenian political will in this decisive year of 1989.

What is more, whereas the alternative obviously wanted to present the declaration to the public as soon as possible, certain "old" alliances took more time to reflect on the draft declaration, either on procedural or some other grounds.

At the same time, Mikeln's text of the declaration was given competition by a text prepared by the leadership of the Slovenian Democratic Alliance. A serious specific linkup occurred in the coalition at the end of April, when it turned out that certain "old" alliances had supposedly put the text of the declaration in the refrigerator, which the alternative interpreted as a lack of will to bring the declaration before the public at all. This impression was partially corrected by the Republic Conference of the Socialist Alliance, which at least was shown Mikeln's document soon afterward, but still has not debated it.

The alternative body of the coalition moved the issue to different ground entirely. That is, the decision came down that Janez Jansa, who is vice president of the Slovenian Democratic Alliance and in that status is also a member of the group which was preparing the text of the joint declaration, must finally go to prison. A protest meeting was arranged in Trg Oslobodjenja in Ljubljana, and that was a good occasion to nevertheless present the political declaration to the public. A segment of the alternative (the Slovenian Writers Society, the Slovenian Democratic Alliance, the Slovenian Peasant Alliance, the Slovenian Christian-Social Movement, and the Social Democratic Alliance) bypassed the coordination of the coalition in deciding on their own text of the declaration, and in Trg Oslobodjenja the writer Tone Pavcek read the so-called May '89 Declaration and called upon the Slovenian people to sign it. It became clear that the main body of the alternative had decided to take the entire issue into their own hands, that dissolution of the coalition created in the Cankar Center is even expected at the next meeting of the coordination.

The meeting was held at the beginning of this week, but the coalition did not dissolve, although rather harsh words were uttered in the meeting, above all criticism of the alternative for not having kept to the agreement about preparing a joint text of the declaration. The fact that after the harsh criticism because of moving out in front with their May Declaration did not simply pack up their bags is certainly indicative, since it proves their political desire for dialogue and conviction that the political schism in Slovenia, that is, in its political ranks, has been harmful.

### A Joint Text on the Horizon?

There are real possibilities, then, that the agreement in the Cankar Center will nevertheless be extended and perhaps even reinforced by a joint text that probably would be rather close to the text of the alternativist May Declaration, but with certain essential additions, which would above all remove suspicion of Slovenian separatistic options to which, to tell the truth, the radical wing of the alternative is inclined. In other words, the option of Slovenian sovereignty cannot be a zero point from which everything should begin from scratch, but respect for the fact that Slovenia is an integral part of the SFRY as an internationally recognized sovereign state.

It is a question, then, of cooling down certain feverish heads and, judging by the last meeting of the coordination of the coalition, the radical wing did in the end give in to discipline or did bow to the majority opinion. That is, that a text should be composed that would be acceptable to everyone, since only that kind of text could have meaning and the anticipated results indicated in the conclusion of the text of the Mikeln group, which is entitled "1989 Slovenian Declaration." That joint declaration, then, would express Slovenian political will in the broadest sense. It accordingly would not be only an announcement to the Slovenian and Yugoslav public, and naturally also to the international public, about the kind of Slovenia and Yugoslavia that citizens of Slovenia want, but would also (or above all) be a republic political compact, i.e., an agreed political obligation on all citizens to carry out what is set down in it. It would then be a consensual platform on which political programs of various political forces would be built, on which a Slovenian national program would be shaped, and on which the new republic Constitution would ultimately be formed.

### Slovene Litterateur Assailed for Charges of 'Serb Fascism'

28000128 Belgrade *POLITIKA* in Serbo-Croatian  
10 May 89 p 7

[Article by Slobodan Zikic: "Slovene Writer Writes That Serbia Is Fascist and That the History of Montenegro Is Meager"]

[Text] Ljubljana, 9 May

The almost constant assertions by various Slovene committees, new political leagues, societies, and associations that Serbia is conducting a Stalinist and hegemonist policy have been supplemented today by one more literary "jewel" from writer Francek Rudolf, better known for his recent call for communists to be shot in local communities than for his literary work. Only Francek Rudolf goes further than the "Slovene coalition" and the alternativists, and calls the Serbian policy fascist!

In today's Ljubljana DNEVNIK, under the title of "People and Weapons," covering two thirds of a page and all five columns, Rudolf first of all quotes Mao Tse-Tung, according to whom "a people that does not have its own army does not have anything," and then says that Matija Beckovic, in a television broadcast, said something unbelievable when he stated that he was angry that people in Slovenia talked about Serbs as being fascists, and about the events in Serbia as fascism.

### About the Dolenjskans and Montenegrins

"And what is fascism, and why is Matija Beckovic a supporter of the Serbian policy, which is being conducted by the fascist Serbian party under the leadership of fascists, who, among other things, are allowing the publication of the fascist newspaper POLITIKA?" asks Francek Rudolf, who immediately gives the answer—"Fascism is always and only the correction of the facts."

Francek Rudolf then enumerates the Serbs and Montenegrins, and then the Dolenjskans, and then says that for years less has been written in Slovenia about the Serbs than about the Montenegrins, although there are 16 times fewer Montenegrins than Serbs, and although Montenegro is 20 times smaller than Serbia.

"Imagine what the newspapers would look like if Serbia were divided today into 16 republics with corresponding identities," says Francek Rudolf. "Even this setup is possible—there are about as many Montenegrins as there are Dolenjskans in Slovenia. The tradition of the Dolenjsko republic is something completely different from the tradition of the republic of Montenegro. There are 40 Dolenjskan kings known even from centuries before the founding of Rome. Most of the Illyrian and Celtic kings excavated in the vicinity of Novo Mesto were richer than Petar Petrovic Njegos. If we compare how much the Dolenjskans fought against the Turks to how much the Montenegrins did, then we will immediately see a difference. The Dolenjskans had to fight, because the Turks came to plunder their lands, and they came to plunder because it paid to plunder. Things were a little different with the Montenegrins."

"Let us also point out that the Montenegrins had problems with converts to Islam, while the Dolenjskan population was not Islamicized at all."

Rudolf then compares the Montenegrins and the Dolenjskans in the national liberation war, and says that Dolenjsko constantly fought and went on offensives, while the other regions of Yugoslavia did the same, but a little more moderately. "At the end of the war, the Montenegrins came into Dolenjsko as commanders, naturally because the war had to be ended gradually and the Slovene army had to be eliminated as an independent army."

He writes further:

"When the people in Belgrade shout that they are for Yugoslavia and the abolition of the republics, we understand their passion: they want to seize what Croatia and Slovenia have accumulated. And when they shout that they do not support the collapse of Yugoslavia, they are only stating that they would like the Slovenes to continue to help them, support the oversized and overly expensive army, and aid the underdeveloped areas so that they can remain underdeveloped and continue to retain the underdeveloped political system befitting the underdeveloped areas.

"I do not have clear facts, but there is a great deal to indicate that even if Slovenia were to join the EEC as an independent state, it would be somewhere in the middle among the members in terms of the population's income. But if the southern part of Yugoslavia became an independent state, it would immediately find itself among the underdeveloped, and would not be able to fit either into Europe or into Latin America."

#### Longing for Staged Trials

Francek also raises the question of how Slovenia could get its own army. He says that if he were a delegate, he would never have allowed the occupation of Kosovo, primarily because the occupation is causing large expenses that someone finally has to pay for, and usually, of course, that is not the one who does not have any money. He declares Jansa's going to jail to be the "beginning of the bill for Kosovo," because Jansa publicly demanded reform of the army, which "brought back one of the colonies into the arms of little, persecuted Serbia."

"Aziz Keljendi, Fikret Abdic, and Janez Jansa were three victims of the same brilliant orientation, three victims of the same unheard-of longing for staged trials and for a controlled judicial system, which is so necessary for any settled socialist state. At least no one shot Fikret Abdic and Janez Jansa, and at least no one is accusing them of killing one soldier from each republic," Francek Rudolf says in conclusion, claiming that perhaps someone would believe that Keljendi shot at all of Yugoslavia, that it is not clear now from the newspapers and magazines who really decided to shoot at those parts of Yugoslavia on which colonialism and feudalism have been imposed, asserting that they are the ones who really need all of Yugoslavia as a "united whole," because they cannot get by with what they have. His conclusion is that such people, even if they had all of Europe, would ruin it as well, because then such a Europe would be underdeveloped, "but would have a really exemplary army."

That, then, is how a prominent writer in a prominent daily newspaper, the Ljubljana DNEVNIK, writes about Serbia, Montenegro, and Yugoslavia. One gets the impression that he is not alone, in view of the tones that were heard and met with approval at last night's protest rally, in view of the writings of Veljko Rus, a prominent sociologist, in the even more prominent and central

Slovene daily political newspaper DELO, and in view of the positions, repeated on several occasions, of the Slovene alternativists and the new political alliances.

Or perhaps someone hopes that a lie repeated several times will suddenly become, in time, the real truth, at least for part of the public!

#### Focus of Security Service Festivities Questioned 28000125 Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian 21 May 89 p 11

[Commentary by Jug Grizelj: "The Secret Police's Public Holiday. Food for Thought"]

[Text] In our society, in the recent or distant past, whenever there were serious discussions on constitutionality and legality, on law and the state, on the state party and the rule of law, on parliamentary control and the evaluation of the work of the State Security Service [SDB], the Day of the State Security Service would generally be celebrated in a particularly noisy fashion, as if it were an official holiday, and there would be so much publicity and coverage on the radio and television that citizens would immediately begin to ask, "What is it? Is there going to be a war?"

So it was once again this year—whether by inertia or by fortuitous coincidence: before, on, and after 13 May, the media played up—one might almost say aggressively so—how the highest representatives of the state and the League of Communists received the highest officials of the Internal Affairs Service and the State Security Service and awarded them decorations. On the occasion of one such meeting the highest representative of the state found it necessary to say that the state would do everything in its power to defend and support the State Security Service and condemn all those attempts, particularly in this country's press, to discredit and disavow the SDB.

Why was it necessary once again this year, 1989, to feature and say how important one of a number of (important) state agencies is? Is there really a threat to its work (and thus also to the state)? Or, on the other hand, at a time when political promises are focusing on democratization, human rights, and the legal security of citizens' (rather than of the state)—are some minds still haunted by the thought that the SDB is "the long arm of the revolution," the "sword" and the "fist" and the "club" of the party, and that every single one of its employees is perfect—that they are people "of a special stamp"? How then are we to explain the focus on one of the numerous occupations in any modern state? How are we to justify the intrusive publicity marking security day, using pictures, scenes, and costumes of the past, when at the same time we ignore far more significant acts and manifestations of the "liturgy of real Socialism," such as the Relay Race, the celebration of the Day of Youth, etc.?



Least anyone might be mistaken, we must immediately clarify one thing, even though it will seem unnecessary to the intelligent reader: the focus of this essay is not on the question of whether Yugoslavia needs a state security service and whether that service needs to be powerful and effective, because such a question is simply nonsensical! As long as there is a state, as long as there is a need to protect its borders and its sovereignty and its secrets and its structure, and as long as there are various intelligence needs in the world—Yugoslavia, like every other modern state, must have an advanced service ensuring its state security.

What cannot be good—unless this was a matter of inertia—is to create an atmosphere nurturing the conviction that this country's independence, security, and sovereignty are exclusively or primarily the responsibility of the State Security Service rather than the concern and responsibility of its citizens above all. It would be a poor state whose security services could preserve it from collapse, however splendidly equipped, well organized, and patriotically inspired they were—if the citizens themselves would not defend that country's security.

Thus, if we need to celebrate the day of state security at all, why do we not employ it as a day to remind citizens of their patriotic duty to defend their country and their sociopolitical system against all possible threats? I say, if there is any need at all to mark that day in a special way and to surround it with such publicity, a parade, and significance, it seems to me questionable at the very least how and why we fail also to celebrate the day of the lawyer, the farmer, the miner, and the meteorologist. These—like many other professions—have exceptionally significant and exceptionally specialized duties in the country's overall security—security from hunger, from illegality, from floods...

It may not be a major point, but it is also not entirely insignificant to note that nowhere else in the world but in the East do people publicly celebrate the day of state security service in anything like the way we do. Have you heard about there being a day of America's CIA, Israel's Mossad, Britain's MI-5 or MI-6, Italy's SIDG, Germany's BMD, BVS, or MAD, or France's Surete nationale or SDECE? As far as I know, there is the day of the Soviet KGB, the days of the other Eastern state security services, and—the day of our service. Does the West not mark the day of state security because those countries pay less attention to that phenomenon than we do (or than the Soviet Union or Romania) or is it because they

view that necessary and important service in any modern country as an ordinary but specialized profession (what profession is not specialized?) under the full control of the country's democratic institutions?

Are the citizens who work in the State Security Service people of a special stamp, the avant-garde of the avant-garde's avant-garde, or are they ordinary working people like all the others in Yugoslavia, people with specialized tasks, specialized knowledge, specialized equipment? I do not believe that the staff of the SDB is overly enthused when they are said to possess supernatural qualities and powers. This was shown most clearly at a recent protest meeting of employees from the Internal Affairs Service and the State Security Service in Sarajevo.

At this meeting both policemen and people from the SDB complained—publicly of course and in front of journalists—about the very same problems all the other working people in Yugoslavia complain about.

They complained that citizens do not respect them enough, do not appreciate them enough—and that the state does not pay them enough! The participants in the meeting also emphasized the fact that they work overtime and do not get paid for it!

I do not know what effect this dirge had on the public but I myself viewed it as a democratic demand by the staff of the Internal Affairs Service and SDB to be treated like other working people and be allowed to complain and bitch about the very same things all other citizens bitch about. Of course this meeting was prompted by the Kecmanovic Affair but the essence of all those discussions was basically such that they really could have resulted in the workers' adopting a trade union document on the bad working conditions in the service (and the working conditions are probably very bad) and—why not?—in a decision to strike!

I know that many would view such a decision as the end of the world but certainly in a way it would be the start of the rule of law. If the workers in the Internal Affairs Service and the SDB are just like all other employees, why should they not complain about poor pay too, why should they not strike too? This would be definitive proof that the Internal Affairs Service and the SDB do not employ people "of a special stamp" and special patriotism, which would be far better for those people—and for all of us.



## HUNGARY

### **Berend Group Presents 3-Year Plan for Economic Recovery**

25000246 Budapest FIGYELO in Hungarian  
4 May 89 pp 9-13

[Economic Reform Committee (GRB) (formerly Economic Management Consultative Committee, GKB) Working Committee No 1 Report: "Three-Year Program Plan for Economic Transformation and Stabilization"; date of report not given; first paragraph is FIGYELO introduction]

[Text] This excerpt of a study draft—shortened to about one-third the length of the original—was prepared by GRB (formerly GKB) Working Group No 1, chaired by Ivan T. Berend. The original title is the same as what we have given this article, and this presentation is not without antecedents. In FIGYELO No 49, 1988 we presented the GKB platform on the market economy, and this year we have published the work of various committees. A lengthier than usual presentation of preliminary perceptions articulated by working committee No 1 is warranted, because it also contains in part the summary of ongoing work done by other committees. Our editorial office is prepared to publish comments made and positions taken by professionals and organizations regarding this program.

#### **Reform and Economic Policy Turnaround**

We are approaching the end of a period defined in the 1987 government program. This period is identified by many as the stabilization period. Nevertheless, the economy continues to be in a critical situation. Behind the crisis of balance we find the structural crisis, and behind that there is the model crisis, which serves as the fundamental definitive factor, and which manifests itself in the framework of economic cooperation and economic management. These crises are accompanied by a political crisis of confidence. There is currently a need for a program which aims to change all elements, and thus undertakes the fundamental transformation of the economy.

#### **Global Market Opening**

Halting the trend which detaches the Hungarian economy, and which provides long-term foundations for prosperity, can only result from extended processes. But it would be a grave mistake to extend the transformation process for a longer period of time than necessary. Lacking consistency, individually beneficial but not harmonized reform measures become ineffective, and in certain cases they manifest damaging side effects. For this reason we are recommending a 3-year program proposal for radical economic reform and for a firm

economic policy turnaround, rather than suggesting protracted corrective reform measures which carry the threat of reversal or of becoming solidified in an intermediate form.

This program is fundamentally different from programs presented before. Taken as a whole, as well as in its form of organic linkages, it projects the fundamental transformation of the Hungarian economic model: the establishment of basic conditions and institutions for a market economy; the evolution of enterprise and changes in state economic management consistent with the evolution of enterprise; and the realization of an economic policy turnaround. As a result of these more than just the main goals of economic stabilization can be achieved. Evolutionary economic developmental processes, which fit into modern global economic processes, will also have a firm start.

The program calls for the enforcement of two fundamental economic policy priorities in the next few years. One is global market opening and the effective transformation of the economic structure based on technological development in harmony with global market opening. Simultaneously, the economic balance must be improved substantially, and the country's international credit and ability to pay must be preserved. We must endeavor to enforce these two priorities with a degree of success so as to achieve at least a modest economic growth rate. This is the condition which enables us to halt the process of general decline in the standard of living. We must pursue a rational anti-inflationary policy—one that does not restrict the realization of the two priorities; and we must avoid strengthening the inflationary process, maintaining it within a controllable framework. We also must alleviate the difficulties of adversely situated social strata—the unemployed.

The large-scale transformation, to be accompanied by unavoidable shocks, requires balanced political conditions and social cooperation based on a broad consensus. Our starting point is an institutional structuring of pluralism and democracy in which political and social accord among parties and organizations ensures gradual transition without explosions and infighting. This transformation cannot be accomplished without strong and firm governmental action. Social accord and agreement among parties must ensure the continuity and security of governmental work during the 3-year program period. These conditions must be established before the 3-year program begins.

#### **Export Incentives**

The first and indispensable element of an evolving market economy and of modern Hungarian economic development is a fundamental change in external economic relations, one that provides a radical expansion of the openness of the Hungarian economy toward the global economy, and one that establishes basic conditions for the Hungarian economy to develop in a manner

consistent with global economic criteria and as part of the global economy. In turn, this change demands rather significant changes in CEMA economic relations, as well as in relations with developed capitalist countries. The change is also accompanied by a proportional change in our relations with the two groups of countries.

A market economy cannot function effectively if entrepreneurs must operate in two fundamentally different markets and under two different sets of conditions. Further, a market economy cannot function effectively as long as entrepreneurs are not free to make decisions regarding a significant part of their sales and purchases, while at the same time they must count on sometimes favorable, at other times unfavorable state intervention. For this reason a unified system of market conditions must be established by endeavoring to render CEMA relations responsive to real market conditions.

A positive role which would accomplish a structural transformation in CEMA relations is not expected to evolve in the next few years. Imports cannot be increased because of limited supply, and some imports will be decreased because the products offered are not competitive. For this reason a relatively significant reduction in Hungarian exports, lasting for several years will be unavoidable. With that, CEMA relations will also have a negative effect on economic growth.

The opening to the global marketplace does not mean the we endeavor to scale down our economic relations with CEMA countries or that we want to abandon CEMA. But we must recognize the likelihood that in the coming years our trade with this region will be temporarily reduced. We must seek rational opportunities for the development of existing relations and for the establishment of new relations. We must not enter into disadvantageous agreements. If we are faced with unfavorable conditions we must instead forego otherwise needed imports. Imported goods which do not respond to our technological or economic needs must not be forced just so that we can increase our exports. Within the next few years, a substantial change in the CEMA cooperative mechanism will be possible only in the framework of bilateral relations. It would be appropriate to begin making such changes in the framework of the Hungarian-Soviet relationship. The purpose of such changes should be that within a foreseeable period of time interstate mercantile trade obligations be discontinued, that such trade be based on separate bilateral agreements, and that transactions be settled in convertible currencies. There are no acceptable long-term alternatives to these two changes.

Changeover may take place all at once or gradually. A one-time changeover would force structural transformation, and if necessary, a most rapid and most radical changing of markets. A one-time changeover would discontinue the distinction in trade between "soft" goods and "hard" goods. In the short run, too, a one time changeover would generate substantially greater interest

in attracting Western capital to Hungary. It would be possible to get rid of the internal regulatory system and the constant bargaining between the state and the enterprises, and of the related tensions flowing from the peculiar features of trade based on settlement in transferable rubles. At the same time however, an immediate changeover to prevailing market prices would result in substantial exchange rate deterioration insofar as the Hungarian party is concerned. To partly offset this effect, a compensation mechanism should be set into motion. Along with a one-time changeover we may consider reaching an overall interstate agreement which would be in force for a shorter or longer period of time, one that does not constitute obligations, but is of an orientational (guideline) character.

Since the changeover is implemented gradually, it would be desirable to limit the transition period to 3 years, or 5 years at most. In a gradual changeover the chances of avoiding sudden changes are much better; adaptation to new conditions of trade could take place gradually. But although these changes would take place at a slower pace, the economy would also incur losses in this scenario. The choice that must be made between these two alternatives should be based on a more detailed examination of Hungarian interests and on bilateral negotiations. Insofar as an agreement projects gradual changeover, such an agreement must, by all means, contain a detailed schedule as to when interim measures will be phased out, and when final measures will be introduced. In the absence of specifying these matters we could count on reversing the process. An agreement should be reached regarding the time when the mechanism for economic relations will be transformed, so that the agreement is in harmony with the 1991-95 plan coordination and other negotiations. After reaching an agreement with the Soviet Union it would be necessary to initiate changes in the bilateral mechanisms with the rest of the CEMA countries.

The impulses, resources, and opportunities needed in the upcoming years for technological development, for the acceleration of structural change, and for economic growth based on these can be acquired only through closer and more organic ties with the economies of developed countries, and by making a beginning toward a return to the global economy and toward integrating ourselves with Europe. The system of relations established thus far in this sphere is insufficient. It is possible to develop this system of relations, however, and only the development of this system of relations holds the promise of avoiding a scenario in which the gradually increasing backwardness of the Hungarian economy becomes irreversible.

As part of continuing our work with GATT, we must substantially modernize and change our customs and licensing system. Following principles, we must continue to develop our established relationships with the IMF and the World Bank. We must accelerate our linkage with European integration. Our joining the Council of Europe could represent a political step, and so would the

achievement of an observer status in the OECD, as well as the creation of an institutional setting for our cooperation with the European Parliament. Specific concepts must be developed for the furthering of the cooperative agreement that has been reached with the European Community, and for the development of a peculiar associate relationship.

We must encourage Hungarian exporters to prepare for more efficient and more reliable quality production, and for the technological and qualitative requirements of the Common Market. It is also necessary to develop bilateral relations with the EC and the EFTA countries. From the standpoint of Hungarian enterprises the North American and the Far Eastern regions represent market expansion potential, and so do developing countries capable of paying. We must make efforts in the framework of international negotiations to continuously narrow the contents of the COCOM list, and further, that COCOM requirements be applied liberally vis-a-vis Hungarian enterprises.

We must establish internationally acceptable and market conforming export incentives. Liquidating the remnants of the financial and commercial licensing system must be accelerated. The number of excepted products, enumerated on the so-called list of exceptions, must be radically reduced. Appearing on the foreign market must be made possible and favorable to private persons and their firms. Similarly, incentive systems (trade promotion) and partially paid for services must be developed rapidly. A system of conditions coupled with appropriate commercial considerations must be established for enterprises capable of consummating long-term contracts. This includes further development of a less costly insurance system, changing the role of commercial offices, and further simplifying the establishment of Hungarian and foreign joint enterprises.

Liberalization of imports payable in convertible currencies is particularly important from the standpoint of developing a market economy. We have taken the first step in this regard already. A program must be developed and proclaimed for the further liberalization of imports. An overwhelming majority of imports should be freed by 1992 as a result. Import liberalization should be based mainly on products. Nevertheless a mixed method must be applied: As a complementing element we must permit producers with large volume exports, and producers who expand their exports in a dynamic fashion, to import goods freely.

#### **Proprietary Reform**

Proprietary reform aims for a deep-seated transformation of present ownership relations. It consists of several important elements. One serves to transform state property into new communal forms of property, and the sale of part of state property to foreigners and to Hungarian private individuals.

The essence of new communal forms of property is that the exercise of ownership rights is transferred into the hands of institutions whose fundamental interest is the long term growth of return on capital, the growth of assets, and the regrouping of assets consistent with such growth. It has become necessary to convert a significant part of larger state enterprises into stock corporations (or perhaps into limited liability corporations) within a 3-year period, and to place stocks (capital contributions) into the hands of appropriate owners. During the 3-year transformation program there will remain quite a large number of enterprises managed by enterprise councils, nevertheless.

In regard to smaller enterprises whose operations can be reviewed easily, the autonomous (general meeting) form of ownership may function successfully even in the long term. The ownership form in which the state directs must be fundamentally discontinued at the beginning of the 3-year period. This proprietary form is warranted only when there is serious reason to exempt an enterprise from under market conditions.

Transformation of enterprises managed by enterprise councils should take place generally on a voluntary basis, in response to market constraints and to advantages derived by an enterprise. On the other hand, the state, in its capacity of owning autonomous enterprises managed by enterprise councils, should have an opportunity to reorganize these state enterprises into corporations if such enterprises go bankrupt, operate in an inefficient manner, or lose a significant part of their assets. Further, the state should be able to reorganize into stock corporations enterprises which do not meet the above criteria, but whose reorganization is in the actual interest of the people's economy. Such interest may manifest itself in the form of selling an enterprise to foreigners or transferring interest in the enterprise into private hands within Hungary.

#### **From State Funds to the Real Owner**

In transforming an enterprise into a stock corporation "outsiders"—commercial banks, insurance companies, other enterprises, foreigners, and perhaps Hungarian private individuals—will subscribe to part of the stock, and become stockholders accordingly. Outsider subscription to some of the stock represents a condition for voluntary transformation. The most debated issue pertains to the fate of stock not subscribed to by outsiders. In our view it would be appropriate to transfer these into a yet to be established state asset fund. The asset fund would be a legal entity. Its activities would be directed by a small number of expert guardians elected by the National Assembly. The asset fund would maintain records of all enterprise assets held by the state, and would serve as the strategic organ to deal with issues related to putting these assets to use. While disregarding subsistence considerations, the asset fund would endeavor to achieve a high return on stock held by the state. If such stock is sold, the asset fund would endeavor



to consummate sales at favorable prices. Dividends paid on stock held by the asset fund should be paid to the asset fund, and so should income having the character of dividends, which stem from the yet to be introduced fulfillment of ownership withdrawals in remaining autonomous enterprises. (Dividends must be correlated with an appropriate reduction of the general entrepreneurial profit tax.) The asset fund's income would consist of dividends and would proceed from the sale of stock held by the state. A certain part of this income would be paid into the state budget, the other part would constitute capital share contributions to the asset fund.

Under contractual agreements, the asset fund would transfer part of the state stock owned to holding corporations and to trustees. These contracts would specify capital return requirements. The asset fund itself would not exercise the owners' right to control an enterprise on grounds that it is in the possession of certain enterprise stock.

It will be necessary to establish a few holding corporations—stock corporations holding together other stock corporations in a vertical productive and economic relationship. It is not necessary, and it is not desirable, that 100 percent of the holding corporation's stock be held by the asset fund. The bulk of state stock held by the asset fund—at least during the 3-year period—would be transferred to various trustees. The function of the trustee is twofold. By virtue of the stock transferred from the asset fund for the purpose of managing such stock, and as a holder of a certain enterprise's stock, a trustee exercises control over the operation and management of an enterprise. On the other hand, the trustee is interested in bringing about improvements in price and in dividend payments, and in the composition of the stock portfolio transferred for the purposes of management from the asset fund. This interest manifests itself in the purchase and sale of these stocks. Apparently a relatively large number of trustees are needed, so that they can compete with each other in acquiring and retaining trusteeships. The method of selection, system of motivation, and responsibility of trustees is still unclear. Establishment of these criteria represents an urgent task. Trust functions could be performed for example by commercial banks, other financial institutions, concern centers, and insurance companies.

The state asset fund must be established by 1989, and similarly, this year, a variety of "trustee" structures must begin to function on an experimental basis, even if such structures have not fully matured and it is obvious that corrections would have to be made later.

Authorizing trustees to achieve the most favorable return on state assets is not the only function of the asset fund. It must also endeavor to sell part of its stock at the most favorable prices to foreigners, domestic banks, other financial institutions, and to Hungarian private individuals and their companies.

It is of particular significance that an increasing share of state stock be transferred from the asset fund to ownership by the ultimate new communal owners. As "real" owners, they will endeavor to increase the return on, and the growth of, their assets. Foundations which serve the operations of local autonomous entities (towns and cities), autonomous social insurance institutions, health care, educational and cultural institutions, for example, may become communal owners of this kind. The fact that such institutions would become stockholders makes it possible to relieve the state budget, at least in part, from financing these institutions. This process can evolve only gradually however, and may begin only within the next 3 years. It involves the free-of-charge transfer of state stock, and the enabling of the purchase of such stock under special credit terms. We recommend that the kind of structural distribution that should evolve in the mixed ownership economy should not be defined in any preplanned manner.

The pace of transformation depends on advantages that could be gained by enterprises as a result of transformation. Such advantages include, for example, that an enterprise may acquire supplemental capital by selling part of its stock to outsiders. This can be supplemented by a certain financial incentive system which does not violate the principle of competition neutrality. Thus, for example, it could be proclaimed that only stock corporations and limited liability corporations are eligible for state capital subsidies, and only such corporations may issue bonds because these corporations are obligated to publicly account for their finances. Viewed from another vantage point, the pace of transformation depends on the manifestation of demand for these stocks. It would be appropriate to increase demand by granting special loans at preferred rates for the purpose of buying stock. The state must guarantee the overall balance of the supply of, and demand for, stocks so that a possible dumping of stocks does not lead to unreasonably low prices.

It is not necessary to accurately define the pace of change. Within the larger state enterprises in the competitive sphere, during the 3-year period, insofar as total economic production is concerned, stock corporations and limited liability corporations must become dominant.

The realistic value of assets must be established in advance of transforming a state enterprise into a stock corporation, or of selling state assets. In most instances these values will differ from book values. The appraisal of assets—so-called auditing—may constitute the basis for determining face values for the bloc of shares issued at the time the enterprise is transformed into a stock corporation, and which embody the enterprise assets. It is appropriate to appraise assets by using this method, because the starting point of this method is the market value of the means and assets owned by the enterprise, as well as their worth, in case someone wants to invest his money.

### Privatization

The preliminary appraisal of enterprise assets must be performed by specialized, independent, competing expert organizations committed to perform their function according to international standards. Such organizations must be established as soon as possible. Auditing is no insurance against the cheap "selling out" of state assets, of course. "Selling out" at a low price threatens when a state enterprise, in the course of its transformation, attempts to sell part of its stock. For this reason it is appropriate for the asset fund to have the right to veto the sale of stock if stock prices fall substantially below values shown by the preliminary audit. Later, the vested interest of trust institutions would put brakes on the sale of stock to foreigners and private Hungarian individuals if stock is sold at unreasonably low prices. Incidentally, extremely low stock prices result mostly from an overly large supply of stocks. This can be avoided through the exercise of control measures by the state. Similarly, state control measures should get in the way of autonomous enterprises converting state property into consumer income by using the proceeds of the sale of assets to increase wages. Techniques by which such matters can be prevented should be developed as soon as possible.

In the course of changing proprietary relationships we may expect the quickest accomplishments as a result of the growth of small and medium-sized private enterprises. These accomplishments could be rather significant in the course of a 3-year period. For this reason state action enhancing the establishment and operation of small and medium-sized private enterprises, and the discontinuation of existing obstacles in the way of such enterprises, is needed. We will return to this issue later.

In the near future, within the framework of a separate government program concerning privatization, part of state property—plants, shops, parts of shops—must be transferred into private ownership. As a first step this change is appropriate particularly in regard to commerce, the catering industry, and service providers, but it is also appropriate in industry, and in the construction industry. The sale of shops and plants must take place in the framework of public competitive bidding. The selling price of a shop or a plant must evolve in the framework of a competitive bidding process. Selling out at unreasonably low prices in a campaign like fashion must be avoided also in this regard, nevertheless one must endeavor to make significant progress within the 3-year period. Direction of privatization must be placed in the hands of a special organization (or several special organizations) to be established this year, rather than in the hands of the presently functioning enterprise headquarters. It would also be appropriate to enhance privatization with preferred loans for purchasing these entities. The seller should be obligated to pay a larger part of the price realized from the sale of state property to the state asset fund.

### The Future of Cooperatives

A pluralism of proprietary forms must be created in agriculture, complete with equal ranking and competition neutrality between the various forms. This requires primarily the discontinuation of the monopolistic situation enjoyed by large agricultural plants, the development of individual (family) forms of ownership within large plants, and the development of individual (family) forms of private ownership.

Agricultural cooperative property must renew itself. Cooperatives must be fully independent in formulating their spheres of activity and their internal conditions; they must determine the proportions between large plant and individual (family) management and the method of cooperation between the two. A further proliferation of individual (family) and group enterprising within cooperatives is to be supported, and the satisfaction of land lease, and land purchase endeavors by individuals (families) and groups should be based on decisions made by autonomous bodies in cooperatives. Developmental trends suggest that agricultural cooperatives are turning into trusteeships and management centers, and that they are becoming the integrators, the buying, selling, service, and on occasion financing organizations of individual, family, group, and other enterprises within or attached to cooperatives.

To establish a strong motivating force in the utilization of total cooperative assets it is necessary to substantially reduce the volume of the indivisible share of assets, and to render an overwhelming part of the indivisible assets divisible. This division of the value of assets can be accomplished by transferring parcels of assets under the name of individual cooperative members. This can be accomplished by issuing partial shares or shares representing assets. These would constitute securities saleable within the cooperative or even outside the cooperative, as determined by the cooperative's autonomous body. Dividends should be paid after such securities. Working out the details by which cooperative assets are shared must be left to the autonomous cooperative bodies. In terms of a legal framework, it is appropriate to specify only the broad framework for possible courses of action.

Conditions for the renewal of cooperative property are as follows: Cooperative autonomy must be consistently democratized together with the forceful evolution of ownership positions among members of cooperatives. The ability of the state, councils, party organizations, and organs representing the interests of cooperatives to intervene in the exercise of ownership functions and in the management of cooperatives must be discontinued.

In order to establish a market economy there is an indispensable need for change regarding land ownership, as well as the use and sale of land. The opportunity to buy and sell land must be provided for by law. Not only sales transactions between state farms and cooperatives should be unlimited, but private individuals should also

be permitted to buy arable land from state farms and cooperatives. Barriers must be erected so that land is not sold at unreasonably low prices, or that land is not sold wastefully only to produce a short-term increase in personal income. For this reason the sale of land should be administered by way of competitive bidding, and subject to the approval of a qualified majority of the autonomous body.

Until such time as more realistic land values evolve, arable land should be considered part of the farming assets and of national assets on the basis of "calculated" values. This should serve as an interim solution only, and the method of calculation should be established.

### **The Regulation of Competition, Prices, and Wages**

At present the Hungarian economy has an overly monopolistic, oligopolistic structure. This enables the abuse of superior economic power. The market, and the functioning of competition must be protected both by virtue of economic policies and by law, protecting competition itself, as well as the purity of competition. It is the task of economic management to tear down existing bureaucratic barriers which stand in the way of competition, and to render as a matter of fully public record any exceptional limitation on competition introduced in the interest of society. To accomplish the tasks related to the protection of competition there is a need for a cartel office fully empowered to perform those tasks.

A significant number of monopolistic situations have as their origin the overly centralized organizational system. Despite this fact we are not recommending a new decentralization campaign. Instead it would be appropriate to build on opportunities offered primarily by the new law on business organizations. Along with such measures, contradictions stemming from the organizational system, and from the possibility of abusing monopolistic situations, can be significantly reduced by introducing in practice an enterprise stimulation program—including a broadly defined privatization process—which would produce within a relatively short period of time a sudden expansion of small and medium-sized enterprises, and a significant broadening of their activities.

One of the conditions by which market mechanisms function is that prices evolve generally freely, on the basis of agreements between buyers and sellers. State price controls should be applied only in exceptional cases, and only if authorized by law. It is not necessary to substantially reduce the approximately 30 percent proportion of centrally influenced prices that will be left by the early 1990's. The legally guaranteed freedom of pricing also means that under conditions of free pricing, prices will no longer be checked. Instead of checking prices, in the future we will check compliance with the rules of competition.

The regulation of wages by law is ahead of the conditions needed for such liberalization—primarily the evolution of ownership interests which serve to counteract wage increases. Until such conditions evolve, interest mediation will be heavily burdened. It is appropriate to wait with the further liberalization of still existing restrictive regulations.

### **The Governmental Practice**

Expanding the sphere of action of organizations doing business necessitates deregulation, i.e. the changing or the repealing of laws that hinder their adaptive abilities. Unwarranted state monopolies, laws which hinder private activities, must be discontinued. Business organizations must be freed from the obligatory performance of functions not closely related to entrepreneurial activity. Laws requiring internal regulatory activities—licensing procedures related to limitations on proprietary conditions and activities—to be performed by business organizations must be limited substantially. Beyond information required for the regulation of the market place, all obligatory data provisions must be ceased, or, if required, the entrepreneur must be entitled to be reimbursed for his expenses. It will be appropriate to establish an interministerial committee for the programmatic performance of deregulatory tasks.

Informal influences and special rules which counteract the effects of market mechanisms must be discontinued. Barriers must be erected so that intervention in entrepreneurial ventures, other than by owners, should not be repeated. The relationships between business leaders, political organizations, and interest groups must be rearranged once again. Cadre authorities must be done away with.

The economic function to be performed by the state as a public authority remains the establishment of general rules by which the market functions, and in certain instances the influencing of the market. The state formulates the organizational, legal, proprietary, and taxation framework, and assists in the evolution and functioning of free price and wage mechanisms.

The economic activities of the government receive a comprehensive base through peoples' economic planning. Monetary and budgetary planning—primarily in regard to short-term processes—gain qualitative significance. The government's long-term economic and social policies, and particularly the system of goals and means related to the transformation of the economic structure, must be brought into harmony in the framework of strategic planning.

Monetary regulation plays the lead role in preventing the disintegration of balance at the macroeconomic level, as well as in the restoration of short-term balance and in making adjustments in response to cyclical changes. But the budget also plays a role by providing solutions which fit the logic of a market economy.



A new division of labor is coming about between the National Assembly, the head of state, the government, the head of the government, regional and other autonomous organs, and the judiciary. The need calls for a conceptual, coordinating, and organizing governmental activity. This necessitates collective policy formulation, the strengthening of ministerial independence and responsibility, and the development of a central apparatus within a renewed organizational structure, which has a fewer number of people, but who are nevertheless professionals well respected by society. Public officials who regularly judge situations incorrectly, suppress alternatives, and make secrets out of unfavorable news, who do not accept responsibility, frequently make incorrect decisions or direct the apparatus in an inappropriate manner must be replaced.

### The Financial System

The basic condition for a relatively balanced market functioning of business organizations is that the main directions for financial systems development be set in government programs and in plans, and that the basic principles and fundamental methods of operation be gradually provided for by law.

Essentially this has already taken place in regard to the tax system. In order to make the indispensable corrections, one needs mainly changes in tax rates and smaller modifications in construction. In conjunction with budget reform there is a need for a state budget law. This must be accomplished in 1989. Probably toward the end of 1989 or in early 1990 it will be appropriate to enact a banking law, and further, to create a package of securities laws. A capital market is an indispensable accessory in market economies. The technical conditions for a functioning exchange should be established by this year, and the operation of the exchange should be gradually developed beginning in 1990.

The legal status and organizational relationship of the central bank must be changed. In addition to the increased central bank responsibility flowing from economic development, the relative autonomy of the central bank must be increased. A twofold prescription is warranted: The central bank should be under the direct supervision of the National Assembly, but at the same time in regard to measures that substantially affect economic policy, the central bank should have an obligation to reconcile its steps with the government.

Liberalization of the still segmented banking system must be continued gradually. The timing and method by which the already relaxed but still existing framework of regulations can be discontinued requires examination. It would be appropriate to establish conditions for every financial institution, by which personal banking becomes a rational undertaking by all financial institutions. It would be necessary to broaden the role of banks in foreign exchange transactions, and appropriate to enhance competition among financial institutions by

relaxing the banking structure which turned out to be oligopolistic. As part of budgetary reform it is necessary to establish an accounting office, which would exercise control over the administration of the budget.

Our systems of foreign exchange management and customs must be made the subject of comprehensive review. There is a need for a system which is in harmony with general sales taxes, treats commercial and tourist sales on the basis of uniform principles, stimulates savings, and is far simpler than the one we have today, contains less barriers, and permits the free movements of the marketplace. Deregulation and modernization are needed in the context of enterprise financial rules, as well as in accounting procedures and in the related statistical information management.

### State Structural Policies

From the standpoint of the state's structural transformation activities, it is necessary to distinguish between two fundamental productive spheres. In terms of energy production and distribution, the exploration industries, and the activities of the productive infrastructure—such as telecommunications and the railroads—the effects of the market are necessarily indirect and limited. For this reason the state's decisions regarding structure are indispensable and are frequently definitive. At the same time, however, one should not disregard market effects and profit motive in these areas either. Particularly in the fields of mining and telecommunications it is necessary to more stringently enforce the effects of the marketplace.

The competitive sphere presents a different situation. This includes the processing industry, agriculture, the construction industry, commerce, foreign tourism, public roads, and service provisions to individuals. In these areas external and internal market effects, and the autonomous business decision of business organizations, must play the general and definitive role. Within the competitive sphere one cannot centrally "assign" the "lead" specialized and sub branches, as well as those which ought to be "counter developed."

In the interest of transforming the macrostructure of the economy the structure of investments must be gradually changed. The ratio of infrastructural investments must be gradually increased. These include communications, education, research, transportation, health care, and environmental protection. The increased ratio must be to the detriment of industries within the narrow definition of the productive branches, and particularly the ones which thus far have enjoyed a one-sided preferential treatment, such as energetics, raw material exploration, and base material production. At the same time, as a consequence of undeveloped market conditions in Hungary, during the 3-year period and in the interest of a successful structural transformation, the state must

conduct its activities in principle more actively and in a more multifaceted manner than what is deemed necessary in developed market economies.

#### **Benefits—Conditions?**

At present there is in force a competitive system in the framework of which enterprises receive benefits to support their export development programs. It would be desirable to supplement these benefits with a continuously functioning system which supports export-oriented development and structural change based on significant technological development, while taking into consideration the fact that the results of development can appear only after a considerable period of time has passed. Under this system an entrepreneur will not accept an export obligation. Instead he will assume risk by investing his own resources and by taking out loans. Risk is shared with a bank and/or with an investment company which obligates itself to participate in the financing of the developmental activity in the event that R&D activity, which was also helped by the government, produces results. Tax benefits regarding interest payable after export development investments may be taken advantage of, depending on the actual export and the proportion of exports. Enterprising ventures which come into being with the help of foreign operating capital or on the basis of World Bank loans receive preference.

Taking into consideration the gradual discontinuation of general sales taxes after investment goods, and the high interest rates that evolved, greater emphasis must be given to benefits after profit taxes in the framework of the competitive bidding system. Such benefits must be related to the total investment made for developmental purposes. In order to promote exports, the export credit system which serves enterprises must also be further developed. Export expansion can be enhanced by the general deregulation of exports, as well as by the liberalization of the foreign exchange monopoly.

From the standpoint of boosting technological development, the general system of conditions governing economic regulations plays a definitive role. Long-term proprietary interest is the basis for this. Insofar as there evolves a general system of conditions for the market economy, special regulatory elements may function in a manner integrated into that system of conditions, within a narrow scope, to enhance the faster, more effective prevalence of the priority goals of technological development. For example, it would be appropriate to extend profit tax benefits to the investment of risk capital into R&D activities. It would also be useful if the sphere and rate of accelerated write offs that can be taken advantage of in given areas would be expanded. The success of methods used in developed industrial countries should be examined, for example in regard to the possible valuation of fixed assets, and together with that, of amortization.

The state's fundamental role in enhancing technological development should be one of sharing risk. The state must get involved in the most risky part of the innovative process, this being the R&D period. State executive direction should concentrate on comprehensive and important priority issues (fewer programs, more infrastructural services).

According to experiences gained in market economies, one of the most important resources of a permanent and intensive change in the product structure and of economic growth is the proliferation of small and medium-sized entrepreneurial ventures. Accordingly, there is a need for peculiar state action which encourages the establishment and operation of small and medium-sized business organizations. The establishment and use of informational and advisory services, and of service networks (organizations) to help entrepreneurs, must be supported. There also would be a need for a financial system which supports the activities of small and medium-sized entrepreneurial ventures. State guaranteed loans granted to small and medium-sized entrepreneurial ventures for specific purposes and with specific conditions would enhance the financing of such ventures. The capital which would serve as the basis of guarantees would be provided from so-called loan guarantee funds. The satisfaction of operating capital needs by small enterprises by way of banks must be improved. In the interest of encouraging enterprises it would be useful to grant profit tax benefits to all truly new ventures.

Regarding small plant production the legal barriers that stand in the way of selling still efficiently usable equipment to entrepreneurs must be lifted. The opportunity to purchase equipment sold in the course of liquidation must be established in an organized fashion. Equal opportunity must be granted to smaller enterprises in the areas of imports payable in convertible currencies, of ruble exports, of financial subsidies, and of withdrawals. The situation in which [creditors] line up waiting for their turn to have their claims satisfied, and in which the claims of small enterprises are automatically given a lower priority, must be stopped.

#### **The Management of Crisis Branches and Crisis Centers**

A structural crisis has evolved in many areas of the Hungarian economy. In some of the cases—primarily in the affected mining and iron foundry enterprises, but also in some machine and processing industry enterprises—the acceptance of a direct role by the state is unavoidable if rational transformation is to be accomplished.

In formulating specific methods the influencing role of the market structure must increasingly become the definitive factor. Overt and covert current production subsidies at a pace announced in advance must be discontinued; developmental subsidies should be maintained only

in order to accomplish an efficient structural transformation. In this regard the agricultural sphere constitutes the exception. In the agricultural sphere only a forceful reduction of developmental subsidies is warranted. Real costs in enterprises should become visible, and—insofar as they are still rational—the consumer should pay them. Within the structural transformation process the affected commercial bank should increasingly, and later exclusively, deal on the basis of business considerations. In other words, they should participate without being influenced by the state in a formal or informal manner.

There is a need for economic policy conduct which forces and stimulates liquidation proceedings. In case there are long-term overdue taxes the initiation of liquidation proceedings should be mandatory. Banks must have an incentive to initiate liquidation proceedings if there are noncollectible claims; alternatively they may convert their claims into capital contributions, or, perhaps they can sell the claim, or may initiate a devaluation of the assets of the enterprise unable to effect payments, and other similar proceedings. The central bank could force commercial banks to take firmer positions vis-a-vis the enterprises.

Reorganization should take place only if it is truly in the interest of society, if the programs developed by those concerned indeed promise evolution, and if the burden accepted by the state remains within the financial framework established by the National Assembly. In addition, the state must foster investments which create profitable workplaces, and must support workforce retraining programs in order to reduce regional employment problems.

Specifically:

In the case of coal mining we must bring up to date the so-called borderline expenses which serve as the basis for judging the economy of production. A schedule for shutdowns must be established. Planned investments must be examined from the standpoint of economy. A decision must also be reached in regard to the liquidation of uranium mining. In the iron foundry industry judging the efficiency of individual activities must be modified on the basis of long-term world market price formulations; a position must be taken concerning the issue of possible state contribution to the planned structural transformation and modernization action. Within agriculture, a new, comprehensive concept must be developed for changing the structure of production.

Under the new competitive situation one must count on the discontinuation of part of the machine industry. It is oversized, because it was established with CEMA markets in mind. Here too, the avoidance or termination of a crisis situation is fundamentally an enterprise task. It is not in the interest of the people's economy to sustain noncompetitive machine industry production. The people's economy should not aid the machine industry either with subsidies or with export credits. At the same time the efficient utilization of capacities is in societal

interest. The resources needed to accomplish this should not be produced on the basis of special solutions, instead it would be appropriate to apply the already mentioned general stimulating methods.

### The Tertiary Sector and Its Mechanism

Infrastructural backwardness hinders economic evolution, the attraction of foreign capital, and the growth of foreign exchange income.

It would be useful to continue the central planning of the macro level proportions of the infrastructure, but for implementation the strengthening of market mechanisms is needed. The essence of the change is decentralization and market orientation. The former must take place both on a geographical basis and in regard to resources. In harmony with the reform program as a whole one may count on an expansion in enterprising. This process must also be assisted by the state through privatization, free pricing mechanisms, and favorable credit terms. This then will relieve employment concerns; it will collect domestic and foreign capital waiting to be invested. Significant progress can be expected in commerce, tourism, and in general, in the field of intellectual products, and particularly in computer and financial service provisions.

It is likely that it will be advisable to concentrate central resources in the fields of communications and education. In this regard, too, the technique of financing must be changed so that the efficient use of financial resources and efficient operations become elementary interests. No other new, significant state programs can be financed out of budgeted resources in the next 3 years. (Despite this statement investments supportive of health care, research, transportation, and environmental protection may be increased to a small degree.)

It is apparent that funds available for the financing of the infrastructure are far off from what would be needed. This is because the financial situation does not allow a larger regrouping of central resources. This, too, underscores the need to attract local, entrepreneurial, and foreign capital. In this sense then, individual areas of the infrastructure may play an invigorating role, but the general invigoration of the sector—actions which would enable the survival of general and central financing and of the central distribution mechanism—is neither possible nor desirable.

Budgetary revenues related to the infrastructure must be returned to the infrastructure through predetermined standard means, in much larger proportions than they are today.

Dissolving monopolistic situations, as for instance with certain services provided by the postal system, is important. In other respects the rationalization of parallel, but presently not competing and not cooperating networks, is appropriate, as for instance with communications,



water resource management, and personal transportation on public roads. Within some institutions the functions of authorities and enterprises are mixed. These must be separated organizationally and the enterprise character of such functions must be established.

### Changing the Distribution System

In the committee's opinion the earlier state commitments cannot be financed, the present mechanisms which do not operate in a functional manner cannot be sustained. For this reason, significant changes are needed already in the upcoming 3-year period in a few key areas of distribution. These are the residential dwelling sector (in 1990), the pension system (in 1991), the central financing system of the human infrastructure (in 1990 and 1991), and the discontinuation of production subsidies. Great debate continues in regard to the specific forms in which needed changes should take place. Despite this fact, however, the committee finds it necessary to present the directions in which changes should be made, in a sketchy form, at least.

Income earned by a significant part of the population is not sufficient to purchase and to maintain apartments. Related state subsidies have reached an annual level of 80 billion Hungarian forints. Despite this fact the population regards the apartment situation as unacceptable, and the chances young people have in acquiring apartments are getting much worse.

### Apartment Financing

In our judgment, a change in the apartment financing system must relieve the pressure on the budget; part of the income needed for the financing of apartments must be derived from enterprise income; a solution must be found by which the burden on those who have apartments will be increased, and the revenues derived from that increased burden would be used to help those entering the residential market for the first time; rents paid for apartments must gradually exceed current expenses, including interest expenses (but not the amortization) of privately owned apartments. The sale on a commercial basis of apartments and stores in good condition should also be fostered.

According to this perception the increasing of the burden, offset by wages and benefits, must be accomplished in a single step, by conveying a significant part of the burden to employers. Rent on apartments managed by the state would be two or three times higher than at present; this in turn would also provide funds for maintenance and renewal. The rate of increase that becomes necessary in terms of rent paid on apartments may be moderated by the abolition of the Real Estate Management Enterprise [IKV], which functions in a bureaucratic manner and is oversized. The IKV should be replaced by small organizations which operate as businesses, in which the community of residents would have a say in the utilization of rent paid. At the same time,

based on a parliamentary decision, the old, favorable apartment credit agreements must be changed. Several alternatives are available in this respect. Under one perception, commercial interest rates would have to be paid on outstanding loan balances, and budget subsidies to support interest payments would be discontinued. The increased burden on individuals would be extremely varied, it would range from 100 to 8,000 forints depending on the date the loan was obtained. The other alternative would call for the prescription of accelerated equity payments, for example by increasing such payment three or fourfold. This would provide for a far more balanced increase in burden than the alternative, which calls for an increased interest rate. It would amount to about 1,500 to 2,000 forints per month. Direct budgetary support of interest payments would be reduced by 2 or 3 billion forints in 1990, but within the credit sphere there would emerge an added resource of 30 to 40 billion forints. The amount of outstanding loans granted on favorable terms would be halved in 4 or 5 years. Another solution, which approaches the situation in several steps, would take into consideration the possibility of increasing the burden. (The extent of burden fundamentally depends on the date when loans were acquired.) Along with the gradual discontinuation of the subsidy system, and in a manner similar to the method applied with respect to new loans, the increase of the burden would differ on an individual basis, assuming identical loan amounts.

Decisions must also be made as to whether individual increases in the burden should be offset in whole or in part in the form of wages, pensions, and family supplements. Full compensation would be inappropriate, in the committee's view. Part of the freed resources should be spent on more state social welfare rental apartment construction. With this the grave problem of finding a first apartment could be significantly relieved. In the committee's view much of the offset must be realized in the form of an average, general compensation; in regard to a smaller part of the offsetting funds, compensation on an individual basis, based on social policy considerations, may be applied.

The inclusion of offsetting funds into wages and benefits would create additional income to those who do not rent apartments or who do not have outstanding loans on favorable terms. Those who do not have an apartment may retain the additional income, because these funds may in part be saved in advance for a future apartment. Persons who own apartments free of mortgage liens should repay a large part of the additional income by way of an apartment tax yet to be introduced. This tax would represent local council revenues, and would be spent on infrastructural development. The rate of such a tax should be about one-half of one percent of the value of the apartment. Those who take out loans could write off the interest actually paid against this tax. Thus they would not pay [this] tax for about ten years. At the same time this would somewhat moderate the differentiation of income and assets. The average tax payment would be between 500 and 800 forints per month.

One view within the committee disagrees with the above perceptions, because it holds that they are projecting a much too coarse, one time regrouping of income; yet they do not ensure an appropriate upswing in residential apartment construction; just barely assist the young to acquire apartments for the first time; significantly accelerate inflation; compensation in the form of wages cannot be accomplished and is not warranted, and societal debate over a comprehensive and in-depth apartment reform would divert attention from everything else and would evoke a passionate clashing of interests. For these reasons, under this perception some smaller and "milder" income regrouping measures are recommended for the period 1990-92. It projects residential reform for the period after 1992, at which time it is assumed that real wages will have increased and the depreciation of pensions will have moderated.

### The Human Infrastructure

To establish a conceptual approach to the financing of human services, it is necessary to develop a yet unavailable set of specific goals in regard to health care, education, and culture, and to articulate a social and political model whose changed role is an extremely important holding element of the human sphere.

In evaluating possible alternatives for health care financing, our committee agreed with the idea that there simply does not exist enough money for health care financing unless changes are made in the present system. A fundamental turnaround must be achieved by establishing a close link between health care and social security, so that in the framework of all related activities prevention becomes the decisive factor. The approach centered around hospitals—which is the most expensive, but whose societal effectiveness in itself cannot increase—must be exchanged for other types of service systems. Examples of such alternatives include changes in the role of the district physician system and the introduction of home care.

As a matter of public service, fundamental health care provisions would continue to be free and accessible to every citizen without limitation. Guaranteeing this is the responsibility of government.

The committee supports a fundamental change in the financing of education.

Within public education—a public service activity and therefore subject to state financing—it must be made possible that nonstate institutions engaged in education—parochial, private, foundation, enterprise schools—should also have access to standard state subsidies to which educational services are "specifically entitled." Accordingly, this means that the amount to which each student is entitled should be established in terms of guarantees—for example at the legislative level—in the interest of acquiring an institutional education to which every student of Hungarian citizenship is

entitled. Various supplemental subsidy systems which improve the prevalence of equal opportunity should be established in a similar manner. Development of the system must begin without delay, so that the system can be announced this year, and that it can be introduced in the school year beginning in 1990.

We find mixed source financing of higher education possible, and necessary in consideration of favorable differentiation—increased efficiency, savings. The real value of budgetary support for higher education must be preserved: But in order to secure resources needed for development and for differentiation a tuition system must be introduced. The level of tuition must be high enough to make an impact. There is a need for the integration of education and research activities, and paralleling this, for the strengthening of financing based on contests, for the increased attraction of foundations and sponsorships consistent with their respective size, and for increases in various other revenues collected by institutes of higher education.

In order to avoid a scenario in which opportunities for continued education are not determined by the availability of financial means, a number of equalizing systems must be introduced simultaneously. One such system would be similar to the advance savings benefit program designed for youth to acquire apartments, tuition coverage having the character of foundations, and the state scholarship system with funding significantly increased, and further, credit constructions which can also be converted into subsidies provided by the state or by enterprises. Given appropriate preparation, we feel that the basic elements of the system can be introduced beginning in 1990.

### Pensions and Social Welfare Income

Continuation of the present pension system in an unchanged form is politically unbearable and it cannot be financed. On a provisional basis parallel systems should be operated, and the citizen should have an opportunity to freely choose between the systems. This freedom may be influenced through incentives of course, and may be restricted to certain age limits. Under the present system the value of pensions cannot be preserved, or may be preserved only to a very small degree. Under any circumstances the system would have to have a character of "running out," and under a certain age, for example age 50 for men, a person could not elect to join the system. In the event that a retiring person elects to receive a pension smaller than the present level of pension payments, the pension rate must be substantially smaller (for example 50-60 percent of the income) and the pension must be guaranteed to be indexed. Such indexed pension payments could be elected by anyone over the age of 40. Below a certain age—for example 40 years—there would be no choice. In such instances the pension system would be transformed into a three phase system. The first element would be a fixed amount to which the employee is entitled. This would be the

bottom line pension. The second element would depend on income, but would be based on a mandated method of calculation. The third element would evolve as a result of voluntary insurance.

During the period between 1990 and 1992, as a result of inflationary effects, pension compensation applicable to the old pension system must be changed, independent from the further development of the pension system. Although supporting calculations must still be made, the appropriate direction for this would be that pensions, which in their dynamics correspond to average wages, "condense" pensions below and above this level.

Recommendations concerning individual social policy elements are still being worked on.

#### Reduced Subsidies

Subsidies should be reduced while taking jointly into consideration some mutually contradictory viewpoints. The government has made a commitment to Parliament, and we have also made commitments in the course of negotiations with the international financial organization, to the effect that by 1992 the nominal value of the presently more than 200-billion-forint subsidies will be reduced to 110-120 billion forints. Considering inflation, in terms of real value this represents a 60-70 percent reduction. (Reduction of subsidized residential interest payments must be considered as having an effective value equal to that of discontinuing production and consumption subsidies.)

The bulk of subsidies can be found in the food economy, in the energy sector, and in export trade. The reduction of export subsidies depends on the possibility of moderating the most uneconomical exportation of food products, while reductions in ruble export subsidies are possible only if the basis of financial settlement is changed. (Even in this case the budget balance will not improve because of the discontinued "kutefa" tax levied on imports.)

In reducing subsidies one must endeavor to reduce primarily those which have a direct impact upon the production structure. Producer subsidies are provided in agriculture, mining, and exporting, while consumption subsidies are provided for milk and energy resources. At the same time, discontinuation of consumption subsidies whose impact on production is much smaller—pharmaceuticals, local transportation, remote heating—may be implemented later.

#### The Tax System

Fundamental changes in the taxation system are not warranted in the upcoming 3 years, nevertheless it is necessary to harmonize the various elements of the taxation system. In regard to general sales taxes it would be appropriate to reduce differences in tax rates by eliminating the present zero tax rate, and by raising the

tax rate to between 5 and 17 percent, while the 25 percent tax rate should be reduced to between 18 and 20 percent. Increases and reductions in tax rates should be determined in the course of tax harmonization.

The committee does not recommend a changeover to an income tax system based on family income. In the framework of personal income taxation the basic system must be sustained, by enforcing justified preferences in the form of tax benefits. The size of income brackets and tax rates should be reduced. The benefit available on the basis of dependents should be expressed not in terms of the tax base but as a fixed amount tax benefit, so as to resolve the contradiction by which persons enjoying greater income receive a larger amount of social support. Benefits related to this activity must be reduced substantially. It would be useful, if within the system benefits would be granted not according to the source of income, but on the basis of the manner in which income is spent. (For example: income on capital would not be taxed on a preferential basis. Capital investments and investment in an apartment would draw preferential treatment.)

We believe that the possibility of eliminating the tax exempt bracket should be examined—together with the aggregation of income not taxed at present, of course. Similarly, a further development in the direction of cost accounting should also be examined (e.g. dependents, residential construction, etc.) The uniform application of tax benefits may also warrant a transition to making pensions subject to the payment of income taxes, in other words, a system based on the gross pension concept.

The entrepreneurial profit tax rate should be reduced in the interest of encouraging enterprise. The special tax should already be reduced in 1990. At the same time, in the interest of competition neutrality, a dividend should be paid for state property, and this in itself would provide an opportunity for the reduction of tax rates. It should be examined which of the following should be treated on a preferential basis, and to what extent: the discontinuation of general sales taxes on investments, the acceleration of amortization, or the reduction of profit taxes.

Public opinion expects wage reform to take place. Part of wage reform includes the fundamental rearrangement of wage ratios and the increase of real wages, and this cannot be achieved next year. At the same time, in certain state financed areas, improving the income situation of some highly qualified workers in the fields of education and health care is unavoidable. This necessitates some significant measures.

In the upcoming period inflation will be affected by several mutually reinforcing factors. As a result of external balance requirements and because of export orientation it would be a minimum requirement that no real appreciation of the forint takes place. The expected domestic price increases thus render an annual 5 to 10



percent normal depreciation unavoidable, and this, in and of itself, causes a 2 to 6 percent domestic price increase. Depending on the pace of implementation, the termination of consumption subsidies will result in an annual price level increase of 2 to 3 percent. Placing the residential sector on market foundations, and introducing the recommendation which advocates the conveyance of the apartment related burden to wages, may cause a one-time price increase or increased cost of 5 to 6 percent.

The inflationary effect of the liberalized wage mechanism is very difficult to prognosticate, but considering the fact that even under stringent income regulations wage increases could not be kept below 7 to 8 percent, under liberalized wage conditions the increases may substantially exceed even 10 percent.

Changes in the financing of human services will not create significant price increases in the short run. Later on we will discuss in detail the elements of anti-inflationary policies.

#### The Macroeconomic Framework of Economic Policy

The economic policy goals of the upcoming years, which can also be expressed in quantitative terms, require greater resources than what we can count on with a sufficiently high degree of probability from domestic resources. For this reason the committee found it not only necessary, but also indispensable, that policies aiming for structural transformation should not just be consistently corrective, but should also firmly stimulate qualitative development. The committee also found it indispensable that substantial foreign resources clearly earmarked for economic modernization contribute to the achievement of at least moderate economic growth in the upcoming years, and following those years to a more forceful evolution.

#### The Effect of Priorities

Discouraging uneconomical and noncompetitive activities, and in the interest and framework of this, the reduction of state subsidies and benefits, import liberalization and the moderation of ruble exports will be accompanied by temporary sacrifices and burdens in the upcoming years. These measures result in reduced income production on the one hand, while on the other they require an increase in the utilization of income (investments) for the purposes of transformation. One must count on reduced production in coal mining, the iron foundry industry, in certain agricultural branches, in certain enterprises within the machine and light industries, while increases in efficient investments in the service of transformation may be expected in the latter sector. The acceleration of export-oriented structural modernization in the "positive direction," based on technological development, also necessitates the increased utilization of income for investment purposes. Within the infrastructural sphere, in communications

and in education, developmental opportunities must be significantly expanded, but growth is also needed in regard to transportation and health care. (On the other hand, defense oriented investments must be reduced.)

Through reduced taxes, through the broader application of accelerated amortization, through the expansion of credit, and through the application of stimulating and incentive methods entrepreneurial preparedness and ability must be increased within the productive sphere as a whole. These measures increase investments primarily within the export-oriented processing industry, and through increased investments the opportunities for technological development and for structural transformation. It is appropriate to reduce state subsidies for developmental purposes, and one should concentrate primarily on investments which result in significant technological development and are export-oriented. From among the energetic development projects, the large investments in coal mining—Mecsek, Dubicsany—should be reviewed and postponed, perhaps eliminated. Construction of the Paks nuclear power plant should be scheduled on the basis of an evaluation which views many aspects of the issue, taking into consideration measures which aim to slow down the increase in electrical energy consumption. Thus, realization of the Paks nuclear plant will probably be postponed for a few years.

In the final analysis, the requirements of structural transformation during the next few years warrant a substantial increase in investments; in addition to growing enterprise and credit resources this also includes the role to be played by domestic private capital and by foreign operating capital. A substantial improvement in the external economic balance, and in the equalizing of the 1991 balance of payments, are warranted by the high level of indebtedness and the heavy burden implicit in interest payments. The International Monetary Fund and the World Bank view this as an element of the stabilization program commitment made by the Hungarian government, and as a condition for the support they have provided. One must also consider the expected growth of repayment obligations between 1991 and 1993. If international financial organizations support Hungarian endeavors, this added burden may be ameliorated through agreements with banks.

The population's standard of living will evolve in varied ways. One may count on a significant increase in entrepreneurial income, and on the forceful growth of the number of persons active in that area, as well as on their prosperity. In regard to the poorest strata, alienation must be prevented by means of social policy. A significant variation is also likely within the stratum in the center, but the real position of this stratum during the period taken as a whole is likely to deteriorate. Some may become unemployed for shorter or longer periods of time. Others will obtain only moderate pay raises, because they work at economic units which have come upon hard times. Finally, the income of a not-too-great

stratum will expand. For the bulk of the population the deterioration of the standard of living cannot be halted in 1990. This goal should be set for 1990 at the latest.

Reduction of the average rate of decline in real wages should be limited to 2 to 3 percent by 1990, and the decline must be stopped during 1991 and 1992. Except in regard to high pensions, the decline of the real value of pensions and other social income should not be greater than the decline in real wages, but in a certain narrow sphere the real value must also be preserved.

The inclination to save must be increased through rational means. This process will be not only justified, but enhanced by the structure of expanded income—the larger ratio of entrepreneurs, enrichment—in general and in particular relative to productive investments. If for no other reason, due to the inflation one can hardly expect a turnaround. All this means that reduced consumption by the population in the next few years cannot be considered a source for improving the balance or for increasing investments. Moreover, the population's consumption will increase slowly, nevertheless manifesting a growing trend, assuming also that the population will invest an increasing part of its income. Reductions in communal consumption—defense expenditures, the expenses incurred by government administration and by social organizations—must also contribute to additional investments which serve to accelerate structural transformation and technological development, and to the improvement of balance and the satisfaction of resource needs for standard of living policy purposes, which may be regarded as minimal. An increase is warranted in regard to other communal consumption items, such as basic research.

### Economic Growth

No economic policy which provides internal harmony can be represented without economic growth based on a healthy structure. Quite naturally, we are not talking about—and cannot talk about—using an unrealistically optimistic growth prognosis as the basis, and of the proclamation of a "distribution policy" built upon that basis. Similarly, economic policy would make a grave and irreparable mistake if just "for the sake of growth" it would not, or would with less determination, realize the discontinuation of uneconomical activities and would endeavor to "stimulate production" without structural transformation. It would be a similarly grave mistake to endeavor to establish the unchanged continuation of foreign indebtedness as the basis for domestic consumption to the point that it triggers economic growth.

Doubtless, there is still a need to restrict the growth of domestic spending. A general restriction encompassing all elements which determine the substantive content of economic policy, and every element involved in spending, would render the further sharpening of the crisis unstoppable, and would lead to "explosion." This is the reason why one cannot acquiesce to the fact that based

on prognoses, economic stagnation is a much more likely scenario. Instead one must find and establish opportunities for a new type of economic development. We must establish growth oriented toward an intensive external economy, meaning one which results in a forceful and economical expansion of convertible currency exports, but at the same time better satisfies the domestic demand. In order to accomplish this we must effectively support those activities which provide efficient and growing resources.

The committee deems domestic spending and the role of the domestic market in the economic growth of the upcoming years important. In the committee's view there is no rational way by which domestic spending can be further reduced. One must not endeavor to achieve a general increase in spending, however, because such an increase would lead to a severe deterioration of the economic balance, if one takes into consideration the resultant invigoration in production, and the real ability of the economy to change structure. In regard to increasing or decreasing—significantly, on occasion—individual elements of domestic spending, the above described varied approach must be applied; increased spending is necessary and useful on balance, and this could be one of the factors of—moderate—economic growth. Reform measures also have as their purpose the improvement of the producers' "supply reaction," meaning that the regulated domestic demand should be satisfied in a better way, by endeavoring to provide such satisfaction by increasing their market share, thereby increasing their production. The main pulling force of production—certainly in qualitative terms, and to a significant extent in quantitative terms—must be constituted by the dynamic growth of convertible exports.

The growth of gross domestic product (GDP) must be accomplished largely through a significant increase in production by small and medium-sized enterprises. The development of state or cooperative owned enterprises must be advanced by privatization following decentralization, or by leasing, and by attracting private capital wherever possible, within reason. A tangible development of the economy could be achieved by the influx of 200 to 300 million U.S. dollars in operating capital. One must count on the fact that the introduction of new forms of business, the liberalization of imports, wages and prices, deregulation and other measures, thus the political means of stimulation, would also invigorate development within large enterprises. General tax rates, as well as the reduction of subsidies and of tax benefits should also act as stimulants to enterprise. One must also take into consideration that the discontinuation of our participation in the Tengiz investment, and the termination of related losses, in and of themselves represent a growth of the GDP.

If economic management actively and consistently takes the necessary steps in the above directions, one could expect with a great degree of probability that the effects of these steps may overcompensate the consequences of

factors which prompted the reduction in the GDP. One may expect an average annual GDP growth rate of 2 percent, at an increasing pace, amounting at first closer to 1 to 2 percent growth, and later to 2 to 3 percent. In any event, a planning, decisionmaking, and regulatory mechanism must be established which distributes not the hoped for, but the actually emerging resources. Taken by itself, this type of economic growth is not sufficient to establish foundations to satisfy the spending goals outlined. For this reason the committee finds it necessary that along with appropriate conditions, using the balance of payments of 1991 as the foundation, we endeavor to obtain a separate foreign "economic modernization" loan(s), or, in part, investment fund. This would serve to virtually "supplement" our resources. These loans and funds would not be tied to a region, and would not serve the purpose of general financial assistance. In other words, these funds would not have the character of the "Marshall Plan," but would be designated for Hungary instead. These funds would be handled separately, spent exclusively for modernization purposes and for verifiable self-reimbursing purposes, and would be recognized by the international financial organizations as not interfering with the commitments we made. The estimated amount needed for the 3-year period is between 1 and 1.5 billion U.S. dollars. This foreign resource must be acquired with the state's involvement, but could be used only on an entrepreneurial basis, except for certain infrastructural purposes.

If, on the other hand we would witness a stagnation of the GDP or a multiyear decline in the GDP, and/or if supplemental resources could not be obtained, a fundamentally different economic policy would become unavoidable: We would have to accept a further forceful decline in the standard of living, a slower structural transformation and modernization, or perhaps even the surrender of these. It is likely that one could not even find appropriate economic means to accomplish this, meaning: economic means which produce results. One could not count on the political acceptance of such a program in Hungary. Most certainly, a program of this nature would also result in the denial of international support.

#### **Anti-Inflationary Economic Policy**

The fundamental goal regarding inflation is the controllability of inflation. First of all it would be appropriate to prevent continuous acceleration and the piling up of changes. It is also appropriate to develop anti-inflationary policies in this sense. Anti-inflationary policies cannot utilize administrative methods, and must not mean the abandonment of unavoidable solutions needed for the realization of economic reform, or of the fundamental priorities, i.e. structural transformation and the improvement of balance, (although the rational scheduling of these is necessary). The chief tools available to anti-inflationary policies are market competition, which evolves as a result of the strengthening of domestic supplies and of import liberalization, or, viewed from

the other side, as a result of the stringent regulation of demand and the reduction of the state budgetary deficit. It is also important that along with inflationary measures, changes which curb inflation are also made. This can be realized if the reduction of subsidies and the nominal devaluation of the forint is accompanied by the modernization of the general level of taxation.

In the committee's judgment, if the indicated anti-inflationary policy is followed, consumer price levels will increase by an average of about 15 percent during the 3-year period. The annual rate of inflation may be rationally reduced by the end of the period to approximately 10 percent, if in 1 year condensed measures are introduced. These would include the discontinuation of subsidies. In that year increases in price levels would approach, or perhaps even exceed, the 20 percent rate, and the inflationary expectations in this context would not gain strength. Although the average annual 15 percent inflation rate is high and would not be desirable from the standpoint of social policies, it is within the limits of the requirement of controllability, and thus inflation would not become unmanageable, self fueling, and an unavoidably accelerating process.

#### **State Household—Monetary Policy**

In the interest of improving the people's economic balance, and considering the international balance of payments, the present 50-billion-forint negative balance of state revenues and expenses should be reduced to between 10 and 20 billion forints in the next 3 years. In order to increase entrepreneurial independence and the sphere of action, the income redistribution role of the state budget must be reduced, and it will also be necessary to reduce the revenue-GDP ratio. In order to advance the acceleration of structural transformation, on the revenue side the withdrawals from the business sphere must be reduced, while on the expenditure side the proportion of expenses earmarked for this sphere and for the maintenance of the apparatuses must be forcefully reduced, while expenses serving the human infrastructure must be increased.

The role of monetary policy will gain further strength. As a result of the fact that in the next few years effective barriers against the expansion of demand for imports, and against endeavors to increase wages, will come about only gradually, tightening the money supply through monetary means will be unavoidable. In addition to this the other main goal of monetary policy is the protection of the currency value. Central bank regulations must not influence interest rates and the daily rate directly; there is a need for the stringent regulation of the amount of currency issued. At the same time care must be taken so that these measures do not lead to money circulation and production disturbances which endanger the achievement of the fundamental goals. Regulation of the money supply will result in market processes determining the interest rate and, to a significant extent the daily rate.



The expansion of individual and business savings is a fundamental interest which serves the achievement of economic policy goals. In the consumer sphere it is necessary to have a guarantee that long-term investment earns at least a minimum positive real interest. In the business sphere short-term interest rates may exceed the interest paid on long-term investments. The increased amount of savings and the reduced level of financing of state purposes must be utilized so that the amount of net foreign credits obtained may be reduced, and so that the credit financing of businesses, and of efficient developmental and modernization purposes, may expand.

### Enterprise Reaction

It is expected that the recommended reform and economic policy will evoke various reactions from the business sphere. There will be "winners" who envision a favorable opportunity for development and an increase in income. Generally speaking, these will be entrepreneurial businesses and small and medium-sized enterprises. There will be "losers" too: the ones which do not operate efficiently and are present recipients of subsidies, the ones who lose markets and are capable only of adapting slowly. One should count on the fact that part of enterprise management will lend its firm support, but another part—perhaps a smaller part, nevertheless a vocal part when it comes to expressing opinions—will be opposed to reform and economic policy measures which from their standpoint constitute a disadvantage.

### Broadly Based Debate

If governmental direction is appropriately foresighted and consistent, and if, despite the expected partial opposition, and with the support of progressive enterprise management, there is enough strength to enforce the entire system of measures in harmony and to avoid intervention that is contrary to the logic of market processes, then one can count on the fact that these measures will produce forms of conduct which are different from the present form of conduct manifested by enterprise management. The definitive factors in enterprise management will be: the tough requirement for accountability enforced from the owner's standpoint, market competition, stringent financial requirements, real and full scale enterprise autonomy, access to capital and developed technology needed for efficient investment, and the discontinuation of the situation where the enterprise is at the mercy of the labor force. In response to the effects exerted by these factors, one may count on the fact that: the movement of enterprises will accelerate, that inefficient enterprises will transform and new ones will be created, that within the enterprises there will be an increased endeavor to become familiar with the market and enterprises will adjust to the market, that innovation will be more vigorous, that the introduction of new products and the discontinuation of old products will be more continuous and forceful, and that stringent performance criteria will be enforced in regard to managers, workers, and the community. Recognition

expressed by the state and by political organs will be replaced by a greater income, by increased prosperity, and by taking an increasing share of the market as the yard stick of success.

It is likely that for a relatively significant number of enterprises the emergence of the economic environment which prompts quick reaction to market challenges will not be sufficient. Therefore, there will be a need to refresh management with trained professionals who possess the appropriate sensitivity to do business and who have the required know-how. We must count on the fact that the enforcement of the norms and requirements of a market economy will become characteristic within a substantial number of enterprises within the next few years. Overall, however, this can be realized only as a result of a relatively longer process which transcends the time frame of this program.

The working committee is aware of the fact that not all elements of the above-described program will enjoy the broad support of society. Such support, however, can and must be acquired. It must be found out which groups of society will lend their support to the implementation of this reform process. Equally, it must be made clear that social groups supportive of, or in opposition to, reform cannot be classified along the lines of the old categories. Support by the broadest possible segment of society can be organized not by promising advantages, but by ensuring the existence of political preconditions. For this reason we find it indispensable that this material become the subject of a broadly-based debate, that the support of the authoritative political forces be acquired, and that those elements of the program which are mutually acceptable be explored. We are seeking and expecting help, so that in the course of work the positive values found in the economy gain strength—these will be of fundamental significance both for acceptance of the program and its implementation. This is not just in the interest of the expert group that has developed this program. It is in the interest of Hungarian society as a whole.

### Berend Committee Plan Priorities Disputed 25000275 Budapest FIGYELO in Hungarian 25 May 89 p 3

[Article by Arpad Csurgay, Tamas Kolosi, and Mrs Ferencne Nyitray: "Reserves Still Exist"; first paragraph is FIGYELO introduction]

[Text] The authors comment on the concepts of a structure policy prepared by the Economic Reform Committee's first subcommittee, led by T. Ivan Berend, which was published in an abridged form in the 1989/18 issue of FIGYELO. They agree with the study's main points but believe that in selecting the priorities, preference must be given to those areas which, in addition to helping us close our gap with world economy, would also prove beneficial, even if closing this gap should fail midway.

Infrastructural developments (including the classic infrastructure) must be placed at the center of structural policy. To aid in structural change, the restrictions in private business activity, cooperatives, and the new forms of ownership originating from the changes in state enterprises must be completely eliminated. The previous market-simulating endeavors must be replaced in state economic policy by the support of genuine market building. The production of consumer goods, including highly processed food products, must be given priority. This is not just indispensable for building a market; it is also a way of producing goods that can be sold on the socialist market for convertible currency—and perhaps of gaining access to western markets as well.

### The Capitalization of National Assets

In working out the conditions for a structural change it must be taken into consideration that the population's tolerance will be destroyed if the government demands ever newer sacrifices without providing clear perspectives. At the same time, the widespread public opinion, also accepted by the government, which, based on misjudgment of the current situation and on an overly pessimistic evaluation of the country's condition, fears the social consequences of radical changes, is unfounded. The point is not just that the series of fear-induced decisions constantly lead to compromises manifested in haphazard and unreflected policymaking, but also that Hungarian society does indeed have resources at present which the population's responsible strata would be willing to mobilize at the government's request for the sake of identifiable and acceptable prospects. In moving toward a multiparty system it must also be taken into consideration that only a program which is able to offer and/or promise an identifiable perspective within a reasonable time to society's decisive and mood controlling strata can expect to be successful. For this reason, true political risks are being carried not by the radical change of structure and the ensuing social tensions, but by the braking and built-in compromises brought about by our fear of these tensions, creating a slowdown in change.

The present level and expected growth of gross national production does not provide adequate resources for a structural change or even for stabilization. With 2 percent annual growth, it would take several decades to meet the minimum requirement of resources for a structural change. At the same time, the country and the population have accumulated significant amounts of national assets during the past 30 years, primarily through the second economy. The assessment of these assets would not only make the declaration of an offensive and self-confidence strengthening political line possible, in place of the present defensive poverty conscious policy, but would also create the conditions for financing the structural change. National assets (land and real estate in particular), coupled with the relatively highly

trained Hungarian labor force, provide attractive investments for foreign capital. It must be taken into consideration that financing any kind of development is possible exclusively through these national assets, i.e., through the use of part of these assets as capital, and that calling this a sell-out of the country is demagoguery. Without this the use of working capital in the form of joint enterprises can have only marginal significance. On the other hand, assets in real estate and land, together with the labor force (in the categories of small and middle-sized enterprises in particular) represent an opportunity for investment which could transform the market economy, based on foreign capital interests, into one of the Hungarian economy's decisive sectors, into a kind of tug-sector, also providing, through the purchase prices, the resources for dealing with the credit crisis and for infrastructural development. But there are numerous prerequisites for this.

An example of such a prerequisite is a realistic assessment of national assets and the establishment of asset managing centers, which would be able to sell the assets slightly below world market prices. Legal access to real estate and land, the establishment of a guarantee system for the free trade of assets, and an institutional system for capital flow would be needed. Changing the forint as soon as possible into convertible currency, together with holding inflation and interest rates below the level of enterprise profits, would be indispensable. (Although we are aware of its dangers and its effects on inflation, we think that selling assets is inconceivable without this. We are quite convinced that the population, too, would prefer a currency reform that is coupled with convertibility to a permanent and unproductive (15 to 20 percent) inflation. Working out a policy of settlement development, which would vary from area to area (having different objectives in the western and eastern regions) and which would focus on the infrastructure, would also be necessary.

### A Demographic Turn

In preparing the structure policy, significant changes in the people's demographic composition during the 1990's must be taken into consideration. A generation of larger numbers will join the labor force during that period, and the population's most active—and largest—age group will be represented by those born in the 1950's; with the halt of the deterioration of health care, hopefully the number of retirees will grow dynamically, however essentially small age groups will be entering the school system. As a consequence of all this, regional and structural unemployment, resulting from the structural change, will be made even more severe by demographic factors. This can be offset only if the infrastructure's development will absorb a significant part of the labor force, if the system of retraining, the tax and credit policies that support small enterprise, and the creation of infrastructural conditions for mobility at areas of residence will make labor supply more flexible than it is at

present, and if a radical extension of secondary and higher education in particular will postpone the beginning of careers.

In addition to a reform of the retirement system, job opportunities (e.g., in part-time work in small enterprise, and in social employment assisting families) must also be created for this age group. Work restrictions for retirees must be eliminated, and organizations arranging this type of work must be supported.

A thorough reform of the educational system must concentrate on higher education, while the decreasing number of students could make a qualitative development of elementary education possible. More and better prepared specialists must be trained for fields that are expected to grow. It is important for the age groups entering the labor force to master modern technology substantially better than at present. (This will necessitate, above all, a coordinated system of computer technology used in the various levels of schools.)

The structure policy sketched above would provide a more highly trained and adaptable young and middle-aged strata having much brighter prospects while the untrained and less adaptable older generations would have more limited opportunities. All this would entail a slight differentiation in living standards and a slight increase of inequalities. The widespread views regarding the radical increase of inequalities are unfounded at present, and the structural change is expected to widen the gap between the best and worst conditions to a lesser degree than would the radical restructuring within each category (i.e., the fall of some groups and the rise of others).

### Winning Over the Trend-Setters

A structural change will gain mass support only if it will result in higher living standards for the trend-setting strata. State social policy must concentrate on a single area, namely, on assuring the citizens' right to a minimum living wage. This will require no significant amounts of additional resources if the resources of the present—inefficiently organized—system of public assistance and support are concentrated here, and if child care expenses are built into a system of family income tax.

We must become aware, changing our habitual thinking of several decades, that our ideal of equality must be based not on drawing back the outstanding, but on lifting up the drop-outs. The existence of capital incomes must also be accepted. The differentiation between incomes "coming from work" and incomes "not coming from work" must be eliminated, and the slogan, "more pay for more work" must be replaced by "more pay for better work". The consequences of a radical structural change, and the expected time and type of results, must be clearly formulated in the government policy. It must be made clear which of the various political organizations would

be willing to help implement such a radical government program. The government must not be ashamed that there will be winners and losers as a consequence of structural change, and it must build its mass support primarily among the winners.

### Soviet Trade: Dollar-Based Settlement Defended

25000244a Budapest FIGYELO in Hungarian

27 Apr 89 p 9

[Article by Sandor Richter, the original proponent of convertible currency-based settlement: "Who Benefits From Convertible Currency Settlement and Why"]

[Text] Ivan Szegvari concludes his article "Dollar-Based Settlement in Hungarian-Soviet Trade?" that appeared in the 13 April 1989 issue of FIGYELO by saying that the advocates of a transition to dollar-based settlement should reveal to the professional public just who benefits from convertible currency settlement, why, and to what extent. In response to the round-robin question raised by KULGAZDASAG, and mentioned in Szegvari's article, and also as part of at least the initial workings of the reform committee—also mentioned in Szegvari's article—I was the only one to suggest "dollar-based settlement." Despite this fact, I feel that the question is not addressed to me. It is not addressed to me, because my arguments are known to Ivan Szegvari by virtue of both forums, and to the broader professional public from the January issue of KULGAZDASAG. Nevertheless, taking advantage of the opportunity offered by the article that started the debate, I would like to present my reflections upon Ivan Szegvari's writings, without repeating what I wrote in KULGAZDASAG.

Who benefits from convertible currency settlement, why, and to what extent? The article that initiated debate ended with this sentence. The answer is simple: It benefits noone in the short term. Moreover, if such settlement takes place without proper preparation and without a carefully structured defense mechanism, it may produce extraordinary dangers in the long term. Nevertheless, other alternatives are not good in the short or the long term. These alternatives are: leaving everything the way it was, or rescuing the present clearing trade settlement system for part of trade, while testing new solutions for the other part of trade, or, trying to transplant what is in my view a unique example in world trade—the Finnish-Soviet method of trade—into the completely different Hungarian circumstances.

We are faced with a dual task with respect to Hungarian-Soviet economic relations. In part we must render the system of conditions for Hungarian-Soviet trade identical to the circumstances that characterize the main trend of world trade; and in part, everything must be done so that this especially burdensome transition does not cause the Hungarian economy to collapse. It appears that the simplest solution would be to establish the modern, global economic system of conditions gradually, and that



gradualism would moderate the risks implicit in transition. I believe that in this regard exactly the reverse is true: The system of conditions must be established radically in the framework of a single step, through action which provides a real yardstick (and fulfills all the rest of the functions performed by money). This can be accomplished by adopting money and actual world market prices. At the same time, not unlike poisonous medicine, the resultant shock effect must be administered in a well portioned manner to the economy, quite naturally through means consistent with the marketplace.

#### What Represents How Much

One of the greatest concerns of Hungarian-Soviet economic relations is that no one in this great wide world—as the Budapest joke has it—actually knows “what represents how much.” The mutually advantageous character of global merchandise exchange can be sensed more or less, but in the given system of relationships, a measurement at the level of products and in enterprises cannot be resolved. First we should know the worth of what is offered by Hungarian enterprises, as well as by the Soviet partner, and this should be calculated on the basis of the external, objective yardstick provided by the world market. Once this is understandable and measurable at the product and enterprise level, it will be possible to add to this a defense mechanism which conforms with the market. This will create distortions of course, but by then we will have a basis by which to compare our price distortions. We will also know what can be expected if we discontinue the defense mechanism. The “moment of truth” will not be revealed by any settlement method—be that clearing, dollar-based or ruble-based, or any combined method—which applies the present system in combination with trade without contingents.

(Reflecting this author's evaluations, a voluminous analysis, soon to be published by the Economic Information Service and by KOPINT-DATORG, entitled “A Comparative Analysis of Economic Relations Between Small Countries and the Soviet Union” provides information concerning various methods of settlement used in trading with the Soviet Union. It compares the relevant experiences gained by Austria, Finland, Yugoslavia, and Hungary.)

Why should we “invent” prices based on fictitious documents for today's so-called soft products? At some point supply and demand would also define a price for these products. If from the standpoint of the exporter the resultant price does not cover costs, this would be an indication that the manufacture of the product should be discontinued, or that the product must be modernized, or that the exporter must seek a new market. It is here that the temporary defense mechanism becomes involved. For a few years, at most, exporters could be assured of a smooth transition while they implement

structural change. I would not be afraid of barter transactions either, as long as such transactions come about in a bargaining process between enterprises. Although in and of itself this phenomenon is not too favorable, these barter transactions would by all means come about under more understandable considerations of value than when delegations from foreign trade ministries “play chess” with the thicket of a mass of products.

#### Only in Deep Water

A transition to a settlement system based on convertible currencies makes sense only if Hungarian trade relations would be transferred simultaneously into a subsystem of Soviet foreign trade management, which is responsible for relations with non-CEMA countries, and if henceforth we could compete with Western exporters directly in the Soviet market. In and of itself, this circumstance would establish qualitative requirements for Hungarian enterprises, much higher than those of today, but one can learn how to swim only in deep water. The Hungarian economy will continue to receive improper signals if, as Szegvari says, Soviet demands continue “to represent primarily quantitative requirements, and not qualitative, state of the art, marketing, etc. requirements posed by the world market.” This situation will continue to exist regardless of the basis of settlement, as long as we remain in the “slot” that has been carved out for CEMA countries. Quite naturally, a change like this would represent a huge challenge to Hungarian enterprises. At the same time, however, being measured in the framework of real competition is unavoidable, unless we adopt as our strategic goal the establishment of a comfortable market until the end of time for goods which cannot be sold in any other market. I do not know why any particular problem would arise if, as a result of such transition, Hungarian enterprises would essentially find the Soviet foreign trade apparatus as their trading partner, rather than directly the Soviet enterprises. The situation is exactly the same in the external economic relations between the Soviet Union and Western countries.

There is no means for accurately calculating which products and enterprises would preserve their earlier market shares, and what products would drop out as a result of the change. Products at an intermediate level of technological development presented today by Hungarian industry satisfy significant Soviet internal needs. Along with appropriate prices, these products would have a chance of maintaining their already achieved market positions. An acquired market share in itself constitutes capital. In my view, given sufficient time between the announcement and the introduction of the transition, significant Western operating capital could be mobilized for investment in enterprises with strong positions in the Soviet market, because this would be a first opportunity by which the old dream of Western firms to penetrate the Soviet market by starting out from a small East European country could be fulfilled. By attracting foreign operating capital, an opportunity

would arise within a short period of time, by which more modern supplies could be offered, and bargaining for far more favorable prices than the present prices could be achieved.

### The Difficulties of Transition

How much does this transition cost? A lot. It is possible that it will actually cost 1 to 1.5 billion U.S. dollars. But how much would it cost to do nothing, or how much would it cost to introduce a temporary structure which continues to block the appearance of measurable, tangible world market requirements in this trade relation, which directly or indirectly influences a huge part of the Hungarian economy? Measures which prevent the outflow of national income, and which serve to avoid the creation of a huge trade surplus, necessitate the forced restriction of the activities of significant exporters. Concerns related to employment, to the utilization of capacities, and to structural change will appear even if the present method of settlement continues. But on the basis of which signals and what information could one tell which activities constitute loss operations in the end, and which ones do not, and which export products should be removed from the structure and which ones should not? I believe that as long as we must make sacrifices, we should do so at least consistent with the interest of an appropriate strategic goal.

Along with this we should use every possible means to defend ourselves against the shock effect. In an optimum case we could obtain help from the Soviet partner to help finance a smooth transition. After all, as is revealed in Ivan Szegvari's article, our Soviet partners believe that if dollar-based settlement is introduced, they would "gain" an annual amount of 1 to 1.5 billion U.S. dollars. Well, then, it may be worth making some sacrifices after all. The other element of the defense mechanism, and this is the one we may certainly count on, is the exchange of the the present system of subsidies and withdrawals for a standard system. This would mean the discontinuation of the present practice of intervention on a case by case basis.

The system of subsidies should be declared to operate for limited time periods only, and it must be temporary and graduated downward. Its fundamental purpose must be to extend the time span in which the effects of transition can be felt. Let me repeat this: in which the effects of the transition, and not the transition itself, can be felt. I am aware of the fact that in these days it is extremely unpopular to advocate subsidies, but in this instance, in contrast to a vast majority of the subsidies provided earlier, we could achieve the survival not of backward structures, but of those who are determined to change. Anyway, it is still a question whether the net amount of subsidies would be as great as under the present system. Calculations in this regard should be made by all means, and quite naturally by organizations which have access to the necessary pricing and financial information.

### Conditions, Circumstances of EC Role Assessed 25000310 Budapest FIGYELO in Hungarian 8 Jun 89 p 13

[Article by Dr Gyula Nagy: "The 'Multiparty' Roundtable on the Scale: At the Threshold of a New Decade"; first paragraph is FIGYELO introduction]

[Text] One of the central themes of the international "multiparty roundtable" entitled "The Future of Europe and of European Cooperation at the Threshold of the 1990's," held recently in Budapest, was the issue of economic cooperation among the countries of the continent. In reporting on the material contained in the several volumes of minutes, the following presents the key points made at the meeting.

Europe as a whole has fallen out of step in terms of adapting to the global economic rearrangement of past decades. In overcoming the problems, however, the lateness, the rate, the components, and the history of backwardness present completely different conditions for the Eastern countries of the continent as compared to the Western countries.

### The Constraint To Break Up

In Western Europe, in the interest of keeping in step with the global economy, and in order to reacquire the lead position in development, the European Community intends to open a new dimension by raising the process of integration in economic development to new heights, by establishing a united internal market, and by potentially extending that market to all the countries of capitalist Europe. At the same time, East European renewal demands the rejection of continuity and a departure from the social and economic model followed thus far, in terms of both internal and international cooperation. The pace, depth, and comprehensive character of reforms that began in individual countries show significant differences, and this polarization renders impossible the renewal of CEMA, the system for socialist international economic cooperation, prior to the millennium.

From the standpoint of European unity, one of the challenges presented by the new decade is whether the Europe '92 plan and reform processes coming to fruition in socialist countries can simultaneously provide effective incentives for European cooperation and for the deepening of East-West relations.

Representatives of several parties stated at the Budapest conference that trust would be built, thereby increasing European security, if socialist countries could, in terms of their institutions, come closer to the various political and economic cooperative organizations which today unite almost exclusively the capitalist countries of Europe. In the framework of global European cooperation the organizations serving political, military, and economic integration, which previously strengthened the division of the continent, are assigned new tasks. By

accomplishing an opening toward socialist countries, and by granting these countries observer status first, and full membership later, the Council of Europe will be able to enhance the multilateral system of relationships and cooperation in all of Europe.

#### **Integration—Not a Fortress**

Conference participants gave serious consideration to this issue: could the development of European Community [EC] integration be dealt with independently from certain endeavors for military unity, and would the establishment of a unified internal market simultaneously enable an opening and a building of relations with outsiders? At present the EC has no independent defense policy, no one questions the alliance with the United States, the military integration of an Atlantic character. At the same time, an increasing endeavor on the part of Western European countries to represent their own peculiar regional defense and political interests and needs within the alliance may be detected. More efficient perceptions concerning such cooperation, and the achievement of relative independence, became embodied in the revival of the Western European Union beginning in the mid-1980's. If the strengthening of the "European pillar" of NATO leads to the evolution of a unified bloc from the standpoint of EC security policies, in other words, if it leads to the realization of the parallel integration of economic and defense policies, this may result in the isolation of EC member nations from the outside world. In this way, the development of the unified internal market and internal liberalization will unavoidably be accompanied by a fortress character of the EC, and with the emergence of new "demarcation lines" in the European system of relationships. This would exclude the outsider countries from the unified Europe that is taking shape.

All these concerns could be heard clearly from the Austrian participants. The Europe'92 plan represents a challenge to every country. Austria undoubtedly wishes to come closer to the European Community, at the same time, however, it desires to maintain its established relations with socialist countries. The real chance for this will occur only if cooperation between the EC and CEMA, and between the EFTA and individual socialist countries, develops in substantially more forceful proportions than today.

Representatives of parties arriving from Common Market countries—primarily from West Germany—spoke emphatically about the importance of openness in the EC, and unanimously took the position that a unified market must not be an impediment to European cooperation.

#### **A Lesson in Parliamentary Practice**

The EC is prepared to build closer relations not only with the EFTA countries, but also with the CEMA member countries. Nevertheless, to accomplish the latter, the

precondition remains unchanged: As a result of reform measures in socialist countries, substantial changes must be made toward values cherished by the West, such as democracy, pluralism, and a market economy. It is in the interest of the West that reform processes in East Europe bring results, and that individual countries acquire greater independence.

From the standpoint of Western European endeavors for unity, one cannot disregard the fact that as a result of large scale indebtedness, what has become an essentially united crisis zone of Eastern and Central Europe threatens the security of the entire continent, and that the lack of stability severely threatens reform itself. In the judgment of representatives of the above-mentioned parties, the West should encourage those crisis management mechanisms which simultaneously enable improved East-West cooperation. In this regard Western Europe's role is not to grant aid, but to enhance the integration of socialist countries into the global economy. In strengthening East Europe's role as a partner, the West could contribute substantially more than today in terms of technology transfer.

In this regard, however, one can still find serious suspicions on the part of capitalist countries. Their concern is that socialist countries would use new technologies primarily to modernize their weaponry. The lack of confidence may be ameliorated, however, by establishing appropriate safeguards and close cooperation.

Joint enterprises, the influx of Western operating capital to socialist countries, which assures the closest cooperation, depends not only on how the political atmosphere evolves. In addition to establishing legal and institutional safeguards, and attractive tax and operating conditions, there is a need to discontinue the overly bureaucratized administration, and to establish an infrastructure (telephone, telefax, roads, etc.) which is considered standard in international practice. Without developing the cooperative ability and suitability of socialist countries, the inclination to cooperate with the West cannot be exploited.

It is a favorable external circumstance that in the process of relaxation both parts of Europe manifest a mutual need for catching up in economic cooperation, and in human rights and humanitarian relations, in addition to the issues of security and disarmament. The next 'multiparty' roundtable conference, expected to be held once again in Budapest, will deal with two important issues related to this matter: European economic cooperation, and the development of human rights and humanitarian relations.

#### **Securities Exchange Development Reviewed** *25000273b Budapest FIGYELO in Hungarian* *18 May 89 p 15*

[Article by "volgyi" (Istvan Garamvolgyi): "Capital Market Indispensable"; first paragraph is FIGYELO introduction]

[Text] In its No 18/1989 issue, FIGYELO reported in detail on the draft study prepared by the No 1 Working Group of the Committee on Economic Reform. The



draft study emphasizes: "A capital market is a market economy's indispensable accessory. The technical conditions for the operation of the Securities Exchange ought to be in place already this year, and the exchange should be developed gradually from 1990 on." The draft study mentions as one of the current tasks the earliest possible elaboration of a legislative package regulating securities. These were the questions on the agenda of last week's general meeting of the members of the Securities Trading Arrangement. The general meeting reviewed the development of the securities market and the progress in drafting a securities bill. Finally, due to the resignation of Zsigmond Jarai as chairman of the Securities Exchange Board following his appointment as deputy finance minister, the general meeting elected Lajos Faluvegi to succeed Jarai as board chairman.

The situation of the domestic securities market changed considerably last year. Prior to 1988, mainly bonds were traded on the securities market, including bonds that could be purchased by both individuals and public institutions. The volume of bonds issued grew dynamically with each year. This growth reached its peak in 1987: The number of bond issues that year doubled, and the value of the new bonds on the market more than trebled. The combined total value of the over 300 bond issues by the end of 1987 was more than 27 billion forints.

The fiscal developments last year had a drastically negative impact on the situation of bond issues and bond trading. The automatic guaranteeing of bonds by the state ceased, and so did the tax exemption of newly issued bonds. Double-digit inflation caused considerable harm to the securities market, by "introducing" negative yields for the bonds that had been issued in the preceding years and were earning interest at a fixed rate of 11 percent on the average. The raising of interest rates on savings deposits by 4 percentage points on the average, which enabled the interest paid on deposits to catch up more or less with the rate of inflation, made bonds less attractive. To compensate for the ever-worsening competitiveness of bonds, the issuers and the underwriting banks offered interest premiums on over 100 of the bond issues.

Until the end of 1987, the domestic securities market was based essentially on bonds, but new types of securities appeared in 1988. The first issue of treasury certificates occurred in March 1988. Repeated issues floated 14 billion forints' worth of treasury certificates. At the end of the year, to finance the budgetary deficit, the Ministry of Finance commissioned the central bank to begin the auctioning of discounted treasury certificates, to banks, financial institutions, and business organizations. Six auctions were held between December 1988 and 11 May 1989.

The first certificates of deposit, with which banks and financial institutions are able to increase their loanable funds, appeared last fall. The short-term and relatively

high-yield certificate of deposit became a popular security within a short time. By May 1989, six banks—the Investment Bank, MHB [Hungarian Credit Bank], MKB [Hungarian Foreign Trade Bank], OKHB [National Commercial and Credit Bank], OTP [National Savings Bank] and Interbank—sold a combined total of about 10 billion forints' worth of certificates of deposit.

The outstanding development in securities last year was the increasing number and volume of stock issues. As a result of raising the authorized capital of existing corporations, and of forming new ones, shares with a combined total nominal value of about 25 billion forints were issued and subscribed last year.

The bond market's uncertainty in 1988 was also reflected in that the number and value of new bond issues shrank to a fraction of their number and value the preceding year. Within the framework of the Securities Trading Arrangement and their cooperation, the banks strove to support bond prices. This prevented a collapse of the market for bonds available to individuals, but merely slowed down the resale of such bonds to the banks. The banks' share of the total of such bonds outstanding rose steadily in the second half of 1988, to nearly 5.0 billion forints by the end of the year. At the same time, sales to individuals of securities with higher yields and positive real interest rates showed dynamic growth. Therefore, what actually happened in 1988 in the securities market and securities trading, viewed in their entirety, was that the structure of securities changed: most of the old bonds, yielding 11 percent interest, were converted into treasury bills and certificates of deposit.

The shares of the old and new corporations, worth between 75 and 80 billion forints in all, were merely extras in the securities market. The secondary market in shares amounted to several hundred million forints. There was exceptional demand for the shares of the Novotrade Corporation: they were selling for between 170 and 200 percent of their par value throughout the entire year. The slump in the secondary market for shares can be attributed in large measure to the fact that the raising of the authorized capital stock and the founding of new corporations provided a large supply and volume of shares that could be purchased at par; because, under such conditions, there is no demand for old shares selling at prices higher than their nominal value. Closely linked to this phenomenon is the comment made by Deputy Finance Minister Zsigmond Jarai: He expressed concern that the wave of converting enterprises into corporations might also place on the market shares of corporations about which sufficient information is not available, and such "bad" shares could lead to plummeting share prices and could undermine confidence in the stock market.

Tamas Rusznak, a department chief of the Ministry of Finance, briefed the general meeting on the progress in drafting the securities bill. The Council of Ministers will be considering the bill's principal provisions in the near

future. A securities expert of the World Bank was consulted before these principal provisions were formulated, and he will be consulted again on their further elaboration once the Council of Ministers has approved them. The bill will foreseeably be introduced in the National Assembly this autumn. After the bill's passage, the law will become effective in 1990.

Besides giving an overview of the state of the securities market, the report prepared jointly by the Securities Exchange Board and the Securities Trading Secretariat also contained regulatory and other tasks connected with developing a stock market. Last year a working group of experts prepared a conceptual plan for the comprehensive development of the Securities Exchange and of trading in securities. The government's Consultative Committee on Economic Management also debated this plan last year. The Securities Exchange Board and the Securities Trading Secretariat both regard market building as necessary, among other things by offering tax benefits and tax exemptions to encourage the purchasing of securities. Parallel with stimulating demand, it will also be warranted to strengthen supply with investment opportunities that provide a real yield. A modern information system that serves the investors' needs is a prerequisite for developing the securities market or stock market. Such an information system, together with the publication of its information, is an essential element of the securities market. The conceptual plan, and several of the speakers in the debate, mentioned a suitable variety of securities traders as one of the conditions of the Securities Exchange's existence and operation. Banks and financial institutions have acted as securities traders up to now, for their own account as well as on a commission basis. Development will require the founding and cooperation of as many brokerage firms as possible. This is supported by the fact, pointed out by several of the speakers, that trading on a commission basis has boosted the daily turnover on the Securities Exchange in recent weeks.

Besides the conceptual questions and tasks, some problems of practical significance were also discussed. For example, the banks have no incentive to issue bonds of their own, because 15 percent of the bonds must be deposited with the central bank as its reserve requirement; thus the interest to be paid to bondholders, and the bank's costs and profits, must be earned on the remaining 85 percent of the issued bonds. Furthermore, more frequent business meetings could help to boost the daily turnover on the Securities Exchange.

The Securities Exchange, the most important institution of the securities market, has entered the stage of its realization, according to law and in reality. Actually there remains only one open question: Where should the exchange be located? The resolution adopted by the present general meeting already answers the other question: How? The Securities Exchange will be created by

perfecting the present Securities Trading Arrangement, and by seeking the World Bank's assistance in shaping the regulatory, technical, and organizational framework of the Securities Exchange.

In conclusion, the general meeting elected Lajos Faluvegi, retired chairman of the OT [National Planning Office], as chairman of the Securities Exchange Board, to replace the resigning Zsigmond Jarai.

**Loans Provide Unemployed With Second Chance**  
*25000244c Budapest FIGYELO in Hungarian*  
27 Apr 89 p 10

[Article by Maria Demcsak: "Loans for a New Start—More Than Money Is Needed for Courage"]

[Text] It is more difficult to find work in the countryside than in Budapest, the city of "unlimited opportunities." The thin little ads in local papers point young people starting their careers away from the place where they were born—toward the capital city. The County of Somogy has never been considered one of those struggling with employment problems. But news of noisy industrialization and development has not come from Somogy either. It is an average county with average occupational concerns. Here, too, unemployment has raised its head, and loans for a new start are not an unknown concept.

Istvan Rozsavolgyi, county council labor affairs chief, says that there is a labor shortage in the county; moreover, there have been more job offers than usual recently. The composition, of course, is not the same as it was before. Today's market calls for trained, skilled workers, and for creative, highly educated managers who speak foreign languages and have leadership experience. At times of bankruptcy reorganization, however, unskilled laborers and administrators, incompetent despite their high school diplomas, are the first to be dismissed. The extensive reorganizations and liquidations have affected between 500 and 600 people, but of those left without work, only 10 or 15 have been unable to find jobs.

Already at this point we may know the response to why so few people have sought the so promisingly announced loans for a new start. Enterprise requires more than money, one also has to be competent in some field. Courage to assume risks must come from competence, and from an ability to find one's way through legal provisions and the tax system. This statement was confirmed by Istvan Rozsavolgyi.

All occupational policy tools are functional in the county; about half of the 2,000 to 3,000 unemployed persons turn to the employment office at their place of residence. Until February 1979 [as published], people have received unemployment assistance, about 300 perform public service work, several retraining programs are in progress, and 14 of the unemployed have already

received loans for a new start from the National Savings Bank [OTP]—according to the old conditions. A majority of them have received the maximum permissible amount of 300,000 Hungarian Forints (HUF). All of them are highly qualified and have professions.

Only 14 applied for such loans. The number of rejected applications is minimal. Only 60 to 70 people waited for the new, relaxed rules that came about in April—they handed in their papers in March. These numbers are too low. The ratio is the same on a national scale. This may be regarded as an unequivocal fiasco, even though the government labor affairs office offered 10-year interest-free loans, and wrote off the interest against the Employment Policy Fund. And the OTP performs an important employment policy function—and not on a mandatory basis—while drawing against the consumer loan fund: It grants credit almost instantly. At least the experience in Somogy County indicates this.

Whoever has an ounce of brains will instantly take advantage of the opportunity to obtain free money—so we think—aware of the high bank interest rates that cripple enterprises.

#### Troubles Toward the End of the Year

Could the conditions for obtaining new start loans be too stringent?

If one is familiar with the old and the new rules, one could state that practically anyone who has the determination to become an entrepreneur, and has learned of an entrepreneurial opportunity from some source, could have access to such loans. (The condition: he must at least be able to read a newspaper!)

Karoly Berecz has become a private merchant selling computers. He worked for a small tradesman as an employee. His employer died. Immediately upon receipt of notice of termination last November he initiated proceedings to obtain a loan. The arrangements he made in every respect served the purpose of not having to find employment elsewhere. Within a month from the date of registration, unemployed persons will be offered a job by the employment office, jobs they are obligated to accept as long as the job offered is appropriate.

If appropriate! First of all, in a small town in the countryside workplaces requiring highly qualified personnel are not abundant, but a salary level offered below the old salary may also serve as a cause for exclusion, and the new workplace cannot be too far from the place of residence. The employment offices were very willing to help, according to Berecz; they did not place obstacles in his path. All he had to do was to wait a month. With a certificate in hand he was able to apply at the OTP instantly.

Those who recognized the opportunities implicit in such loans too early had to wait for the arrival of the new year, except in three counties subject to special treatment; loans could be applied for in the rest of the counties beginning in November only. The word has reached OTP even later. OTP was somewhat reluctant to accept the assigned role, but in January it gave in.

Gabor Nagy, the enterprise president turned managing director of a limited liability corporation [KFT] acted a little bit ahead of the bureaucracy and knocked on OTP's door—not locally, but directly at headquarters in Budapest. There they did not know what he was talking about. On 2 January, however, everything went like magic at the OTP office in Kaposvar, the county seat.

The OTP is not doing a humanitarian favor of course when it writes out a check for up to 300,000 HUF to a loan applicant certified by the council. And it does not take this action upon instructions from the council. Nothing and no one obligates the OTP to approve the maximum amount, or for that matter to approve any amount, if the borrower does not comply with all the requirements for obtaining credit. The Employment Fund agrees to pay the interest only at rates in effect at the moment when the contract is signed. And that only for a 4-year period. If interest rates rise in the meantime, that will constitute a risk either to the OTP or to the fund, unless the fund takes over interest payments under a separate agreement. Similarly, the risks involved in collecting the loan amount are also carried by the OTP, and this risk is charged against the consumer loan fund. The central bank does not provide separate resources for this employment policy purpose. Subsequently, it is the financial institution's task to check whether the client did indeed use the loan for enterprising, even if the character of the enterprise changes in the meantime.

In order to approve the loan, they asked Gabor Nagy's KFT to present a certificate issued by the Court of Registration showing that he has submitted an application to register his firm, as well as the organizational agreement. Considering the amount of money involved, they required two cosigners. He did not have to deposit any collateral.

Karoly Berecz was told to obtain a permit as a private merchant and to identify the location of the plant where he would be doing business. But they waived the stringent conditions once he was able to explain that the computer business did not fit into the boutique category. It is most difficult to find two guarantors; this condition scares away many unemployed persons in an entrepreneurial mood.

In Istvan Lencse's case the people at OTP were even more reasonable. Lencse is a mechanical engineer; energetic as he is, he has committed himself to producing bio-humus and raising seedlings. By what means could a small agricultural producer prove his entrepreneurial quality? He needed the money to buy worms. With



purchase contracts in hand he paid a visit to the OTP, and, following a telephone explanation by the county council's office of labor services, the OTP granted the maximum amount covering the bills. In addition to guarantors they asked only for a budget, to be submitted later. Moreover, they handled the conditions for repayment in a rather flexible manner, taking into consideration the seasonal character of the enterprise. He also was not asked to deposit collateral.

Accordingly, in Somogy the OTP did not flex its muscles, and the administrative work and flexibility manifested by the council and by local employment offices deserves only praise. They treated the 1-month waiting period following notice of termination, as well as the job offerings, as mere formalities; it did not even occur to them to use force other than to persuade their client to become an entrepreneur. The council did not issue certificates only in regard to shortage occupations (thus, for instance, they did not support persons desiring to open shops, saying that there was a great labor shortage in commerce; let the applicant find a job in commerce.) Why then, are there so few people seeking loans? Could the reason be found in the conditions related to obtaining a loan?

There is some truth to this. Under the old conditions (in force prior to 1 April) loans could be obtained only by persons during the extended notice of termination period, and by those who were not engaged in an income producing occupation. Who would be responsible for those who have no assets, the ones who lost their means of existence, or others, who perhaps were never engaged in an income producing occupation?

Accepting a job under appropriate conditions is virtually mandatory. One can find a job within a month, and easily in shortage occupations, because the absolute number of job vacancies is still greater than the number of those seeking jobs.

Despite the conditions which may be called stringent with a bit of exaggeration, it is easier to obtain a loan to start a new career than to obtain unemployment assistance. Istvan Rozsavolgyi deems the new rules overly liberal in certain respects. For example, according to the old rules, if one cannot prove a 3-year employment relationship, that person may not receive unemployment assistance, but may apply for a loan. And he will have a good chance of receiving the council's certification, because they would be hard put to find a job for, say, a 40-year-old unskilled woman working around the house.

#### Too Liberal

The relaxed rules which went into effect on 1 April represent a step backward at one point. The interest payments on a 10-year, 300,000 HUF loan may be assumed by the Employment Fund for only a 4-year period. This is based on the idea that 4 years constitute a sufficiently long period of time to start an enterprise

and for the enterprise to make money. The ones which do not succeed in that time span are not worth financing for another 6-year period. The liberal spirit may be discovered in the fact that those entitled to receive an extended notice of termination may obtain loans—even in June—under the old conditions.

In the interest of making the loan more popular, they expanded the circle of borrowers, and thus anyone, even persons at the start of their careers, may apply for loans; even those who gave notice of termination to their employers and those whose employment was terminated by mutual agreement. Only a notation which says "He Quit" makes one ineligible to apply for a loan. It is not necessary to wait for the 1-month period in every instance, the goal is that a person seeking work will find work to his liking as soon as possible.

The new rules did indeed relax the conditions, but will there be more entrepreneurs hereafter? Loans to start a new career are now available even to those who purposely lost their jobs, just in order to obtain the "free money."

But is the amount offered sufficiently enticing?

There are three members in former President Gabor Nagy's trading KFT. Of the three members, two contributed 300,000 HUF loans as founding capital. Then only one similar member contribution was needed. Having added some of their own money, the minimum starting assets required for KFT's was there.

Essentially, the KFT pursues the same activity as its predecessor which went out of business, the joint enterprise where all three members worked. The enterprise did not cease to exist because there was no need for its services, and thus the president transferred even the former clientele to the new KFT. Business risk was at a minimum, but the operating capital, 1 million HUF, was too little.

For this reason, during the initial years they will reinvest the dividends to increase the basic capital. For those years, however, they are likely to experience cash flow problems, and may be forced to take out short-term bank loans.

Istvan Lencse, too, purchased only as much manure and worms as he could pay for out of the loan. He was unable to add his own capital. Accordingly, the amount of money was a given; he had to adjust the opportunities to the loan amount received.

Karoly Berecz, retail computer merchant, matched the loan with his own capital, but even in this way he was unable to purchase many computers all at once. There is no business without connections, he has time to pay his friends later. His slowly growing assets are continuously pumped back into the business. In this way, and later, by inviting partners he hopes to be able to break even.

### It Could Even Become a Large Enterprise

Accordingly, one could argue whether 300,000 forints are a lot or only a little. Obviously, the relatively small initial capital rules out from the outset certain occupations and a few forms of enterprise. For example, one needs a significant amount of his own capital, or bank capital, to equip a car repair shop, or to become engaged in the freight hauling industry. In addition to individual enterprises however, a greater choice is available for enterprises involving several persons. It has happened before, and it is likely that people will take advantage of this opportunity in the future, that several persons take out loans for the same enterprise. A significant amount of initial capital may be made available by combining loans. (There is a maximum limit of 6 million HUF in loans for any given enterprise.)

Accordingly, it is likely that loans for a new start received a great boost with the relaxation of constraints. It is no longer the forced choice for people who lost their footing or became superfluous. Instead, the loan provides a chance for people in less hopeless situations who have an entrepreneurial spirit.

One of the main reasons for the lack of success thus far is likely to be found in the fact that this form of support, which smelled like assistance, was mixed with the feeling of unemployment, of being excluded, and with a sense of being stigmatized.

But I would caution against being overly hopeful. In the future, too, the broad stratum of people becoming unemployed will not rush to seize the opportunity. Enterprising, the ability to assume risk, coupled with know-how and professional security, will continue to be virtues which cannot be claimed by all of us. And viewed from a different angle, one should not hope and expect the upswing of the entrepreneurial spirit, the attraction of the broadest possible strata of society into enterprising as a result of one of the occupational policy tools provided by the government labor affairs office.

This very desirable movement should also be strengthened through other means of economic policy, because our economy today has far more elements to kill the enterprising spirit than to invigorate it. We will be offering cheap money in vain, if from the other side we strike down on entrepreneurial ventures with high taxes, severe administrative burdens, and constantly changing and generally increasing excises. Little people have always been afraid of uncertainty. Their courage will not be increased by even much larger amounts than 300,000 forints, even if those amounts are offered interest free.

### POLAND

#### ZYCIE GOSPODARCZE 'Briefs' Columns

26000543 Warsaw ZYCIE GOSPODARCZE in Polish  
No 19, 7, 14, 21, 28 May 89

[Excerpts from a weekly news roundup column: "Last Week"]

[Excerpts]

[7 May 89 p 2]

### In Poland

This year, the May Day holiday was celebrated differently than usual. In Warsaw instead of the traditional parade, there was a demonstration at Victory Square during which Wojciech Jaruzelski spoke. After the demonstration some politicians and civic activists, and candidates for deputy and senator, met with residents of the capital city in several of the cafes in the city center. There were also many festivals, amusements, and occasional presentations. There were similar celebrations of May Day throughout the country. In several cities, according to PAP reports, including Wroclaw, Warsaw, and Gdansk, there were, however, incidents and attempts to disturb the peace inspired by Fighting Solidarity. The militia intervened.

On the initiative of its employees, the agricultural and food industry enterprise Igloopol in Debica has transformed itself into a stock company. The founding capital of the company consists of 42,000 shares of stock, chiefly purchased by the employees, with a value of 42 billion zloty. Igloopol intends to form partnerships with foreign capital in the near future.

On 26-27 April 1989, the Sejm met for its 47th session. The deputies heard the first readings of proposed laws on relations between the state and the Catholic Church, on guarantees for freedom of conscience and religion, on social insurance for the clergy, on municipal property, on the examination of economic questions by courts [passage omitted], on notaries, and amendments to provisions protecting agricultural and forest land. The deputies adopted two new laws: on the state enterprise Polish State Railways and on the Central Fund for the Development of Science and Technology; it also adopted amendments to the law on the protection and management of the environment, the water law, and a law on the formation of the Committee on Science and Technical Advancement at the Council of Ministers and the Office for Technical Advancement and Implementation. On a motion by Premier Mieczyslaw F. Rakowski, the Sejm named Jerzy Urban, chairman of the Radio and Television Committee, a minister and member of the Council of Ministers. The task of the new minister will be to coordinate the information policy of the government.

After three days of deliberation, on 28 April 1989, the Fifth Congress of the Union of Socialist Polish Youth ended. The delegates adopted an Ideological Declaration. In the declaration, the Union presents itself as a sociopolitical organization with an open worldview. Its members should be "people who are not indifferent to the present and future of socialism in our country." Grzegorz Dittrich (age 26) from Katowice, a political scientist by training, was elected the new chairman of the Main Board of the Union of Socialist Polish Youth.

A journalist for *ZYCIE WARSZAWY* has reported on the footwear fair in Poznan; the industry offered retailers 31 million pairs of leather and imitation-leather shoes for the second half of 1989, or 2 percent more than in 1988, but significantly less than needed. Women's shoes will be in particularly short supply, including winter shoes. More than twice as much is needed than the producers have offered. There will also be a shortage of 14.5 million pairs of men's shoes and a painful shortage of high-topped and low-topped tennis shoes.

Lines for gasoline several kilometers long have appeared in front of the stations of the Central Petroleum Agency. Andrzej Galczyński, the director for retail sales, says the lines are caused by higher purchases of this fuel after rationing ending. According to estimates, a 4.6 percent increase in supplies of gasoline was possible but during March and April purchases rose by 20 percent. The Central Petroleum Agency has made emergency purchases of gasoline in Denmark, the GDR, and Austria, among other places. Further efforts are being made to increase imports of gasoline.

The average price for a two-week vacation in 1989 is 70,000 to 75,000 zloty (in 1988, 40,000 to 45,000 zloty). Nevertheless, it is anticipated that about 2.8 million individuals (no fewer than in 1988) will take advantage of some form of organized summer relaxation. Plants have earmarked 70 to 80 percent of their social funds for subsidizing vacations; payments by employees should not exceed 30 percent of the full cost. Vacations during the first half of June and in September are half as expensive through most tourist enterprises and in travel offices. (from a press conference at the Committee for Youth and Physical Culture, 25 April 1989)

In Katowice the Silesia Ecology Foundation has been formed. Its founder is the Voivodship People's Council which has earmarked 500 million zloty for the charter activities of the foundation. The 19 other partners contributed 281.5 million zloty. The purpose of the foundation is to create other opportunities for gathering financial resources and to restore the ecological balance in the voivodship as quickly as possible.

#### Abroad

The first secretary of the PZPR Central Committee paid a working visit to Moscow. W. Jaruzelski met with Mikhail Gorbachev. During the visit a Pact on Friendship and Cooperation between the Youth of Poland and the USSR was signed.

Relations with Poland and the other socialist countries were the subject of debate of the Council of Foreign Ministers of the EEC: "The Council greeted with satisfaction the positive developments in the process of political and economic reform in Poland and expressed a desire on the part of the Community to make a constructive contribution to the process in talks being conducted by the executive commission, whose goal is an agreement

on trade and economic cooperation," the communique stated. "The Council is counting on quickly reaching an agreement which should improve access for Polish exports to the Common Market and make possible broad economic cooperation."

The *FINANCIAL TIMES* has reported that the Polish state bank, the Polish Security Bank, is offering citizens of the FRG, high rates of interest for their deposits in DM. The Polish Security Bank has placed advertisements in the press offering 9 percent on three-year time deposits. By comparison, the analogous West German obligations<sup>a</sup> earn 6.45 percent. On its second page, the London daily prints data from the head of the Frankfurt branch of the Polish Security Bank that about 150,000 accounts have been opened in the Polish bank, whose holders are chiefly Poles living in Frankfurt. A network of 17 agents in the FRG and in West Berlin has been set up. One-year deposits earn 7 percent, and two-year deposits, 8 percent. The *FINANCIAL TIMES* writes that other foreign banks offer high rates of interest, for example, the Hungarian Savings Bank.

Jozef Lochowski, deputy president of the Polish Chamber of Foreign Trade, and Hubert Janiszewski, deputy president of the Agency for Foreign Investment, visited Yugoslavia. The Polish delegation met in Belgrade and Zagreb with representatives of the Yugoslav Economic Chamber and the Economic Chambers of Croatia and Serbia, with representatives of central institutions, and with several dozen enterprises from Yugoslavia. They discussed new opportunities for economic cooperation made possible by the regulations on foreign investment in Poland and on the independence of enterprises and subjects associated with joint investments.

The correspondent for *RZECZPOSPOLITA* writes that the statement by K. Grosz, secretary general of the Hungarian Socialist Workers' Party, on the need to declare a state of emergency in the Hungarian economy has been quickly taken up by the domestic and foreign press and radio. This problem has dominated and pushed others into the background. It made no difference that just a few dozen hours later, M. Nemeth, the premier of the People's Republic of Hungary and the most reliable individual as regards economic matters, declared that he was opposed (when the political leadership considered these issues) and remains opposed to declaring and introducing emergency economic regulations.

Rezso Nyers, a member of the Politburo of the MSZMP Central Committee, also spoke out. In his opinion the past 40 years can be regarded as an emergency situation in the Hungarian economy, but there is a difference between an emergency situation and a state of emergency. [passage omitted]

The International Iron and Steel Institute says steel production in the capitalist countries is continuing to increase. Partial estimated data for the first quarter of



1989, covering production in only 33 of the 44 members countries of the Institute, shows that raw steel production in the capitalist world increased by 3.6 percent in comparison to the first quarter of 1988. The EEC produced 35.8 million tons (4.5 percent more), the United States 23.4 million (2.6 percent more), and Japan 26.4 million tons (slightly less than in the first quarter of 1988).

[14 May 89 p 2]

[Excerpts]

#### In Poland

[Passage omitted] On 5 May, the workers at four mines in the copper basin in Lubin (Legnica Voivodship) struck: Lubin, Polkowice, Rudna, and Sieroszowice. The strikes were caused by wage disputes. The strike at the hard coal mines Makoszowy and Boleslaw Smialy and the strike warning in other mines ended on 4 May 1989. Rajmund Moric (for the Federation of Miners' Trade Union), Alojzy Pietrzyk (for Solidarity), and Jan Szlachta (for the Hard Coal Community) signed an agreement on miners' wages on free Saturdays. (They will be reduced relatively in relation to wages for work on so-called black days.)

The Federation of Trade Unions of Spolem Employees announced a protest action on 4 May 1989. The retailer employees demand improvement in the operations of retailing, i.e., among other things, an improvement in the outfitting of stores in refrigerating equipment and cash registers and the ability to manage their own funds so as to raise the wages of employees. The protest is to last until 20 May without harm to the customers. [passage omitted]

On 4 May at the Paris commune Shipyards in Gdynia, a fire broke out on the Langusta fishing trawler; the cause is unknown. It is being built for the Odra Fishing and Fishing Services Enterprise in Swinoujscie. As a result of injuries, two shipyard workers died; 15 individuals were taken to the hospital; three are in serious condition.

On 4 May, a bus line between Bialystok and Vilno was opened. The buses leave Bialystok and Vilno each day in the morning and reach their destination more than 7 hours later. Each of them can hold 42 passengers. A ticket from Bialystok to Vilno costs 2,500 zloty, from Vilno to Bialystok, 12 rubles.

At the Rozbark mine in Bytom, in addition to the independent union and Solidarity, there is a third union for supervisory employees and administrators. In addition to those listed in the union's name, individuals with a secondary education or performing a supervisory role can be members. The new union is waiting for registration in the Voivodship Court in Katowice. It is not to fight for something, but to defend the interests of each member.

Spring floods caused significant losses in southern Poland. The Krosno Voivodship suffered the most. There water flooded about 11,000 hectares of agricultural land and 60 hectares of private plots, 3,800 residential buildings, and 1,415 commercial structures. The water also damaged 35 km of roads, 5 bridges, and 18 sidewalks. Due to the floods, it was necessary to close 45 industrial plants, 25 schools, three preschools, and two health centers; 720 individuals were evacuated. Floods in the Tarnow, Now Sacz, Przemyśl, and Rzeszow Voivodships also caused noticeable damages. The losses in these voivodships have been estimated initially at 12.5 billion zloty.

Data from the Central Office of Statistics for the first quarter of 1989 show that 292 new building and assembly enterprises were formed in Poland. (At the end of 1988, there were 2,026 of them.) During this same period 23,000 new small-manufacturing shops in construction and production of construction materials were registered. (In 1988, there were about 140,000 of them.)

The Polish emigrant population is estimated to be more than 13 million. Polonia forms large communities in 32 countries. Since 1980, about 750,000 Poles, termed the most recent emigration, have lived in the capitalist countries. The process of emigration and extending stays abroad beyond the declared period is growing: in the vast majority of cases, the reasons are economic (from a meeting of the Socio-Political Committee of the Council of Ministers on 3 May 1989, which examined the problem of cooperation with Polonia. The Socio-Political Committee decided the economic emigration requires immediate legal regulation.)

On the 198th anniversary of the adoption of the Constitution of the Third of May, a ceremony was held at Castle Square in Warsaw. The highest party and state officials participated. Ceremonies marking the occasion were held throughout Poland.

On 2 May in Mosina (Poznan Voivodship), one of the most modern furniture factories in Europe was turned over for use. The plant is part of the Swarzedz Furniture Factory. It is equipped with the most modern machinery and equipment from Italy, Spain, Sweden, the FRG, and Denmark. The Swedish firm Ikea, with which the Swarzedz Furniture Factory had previously signed a long-term cooperation agreement, provided the credit; 30 percent of its production is to go to the domestic market.

The first issues of two new weeklies ZMIANY and RONDO have appeared. ZMIANY is a magazine of the self-managements and is to contribute to the development of all forms of self-management and to oppose limitations on, and obstacles in the path of, reform. RONDO is intended for people in business.

**Abroad**

[Passage omitted] Economic cooperation and trade between Poland and the GDR can develop much more rapidly, be more solidly based on specialization and cooperation in the interest of both countries, and better meet the needs of our societies. That was in brief the conclusion of the talks between Dominik Jastrzebski, minister for foreign economic cooperation, and Gerhard Beil, GDR minister of foreign trade, in the capital of the GDR.

In Berlin talks conducted by Franciszek Gaik, minister and head of the Central Planning Office of the People's Republic of Poland, ended. The Polish minister was received by Willi Stoph, member of the Politburo of the SED Central Committee and chairman of the GDR Council of Ministers. The main subject of the talks was the state of work on the coordination of economic cooperation between Poland and the GDR in 1991-95, in which direct cooperation between enterprises of the two countries is to play a special role. W. Stoph was interested in the process of socioeconomic change in Poland and the changes in the management of the Polish economy.

At the White House President George Bush received the winners of the Democracy Medal awarded by the National Foundation for the Support of Democracy. Jacek Kuron, a Solidarity advisor at the roundtable, was among them. During the ceremony, George Bush said: "Poland is moving in the direction of greater freedom for all of its citizens, greater economic potential, and greater economic efficiency. The world is watching and applauding."

The weekly FIGYELO published a report on the structure of arms production in Hungary: 75 percent consists of telecommunications and electronic equipment, 8 percent consists of repairs to armored vehicles, cars, and planes. Only 12 percent of the production consists of weapons and ammunition, including guns, pistols, and machine guns; 5 percent consists of products of the light and chemical industries. In Hungary, there are 57 enterprises in which military production makes up less than 10 percent of productions. There are 20 plants in which it is greater than 10 percent, and only two, in which it makes up 80 percent or more. The latter are the Engineering Laboratory and the Precision Engineering Works. Among the enterprises known more widely, Videoton produced 35.3 percent of its products for the military; Orion, 13.1 percent.

The CTK agency reported that the Czechoslovak People's Army consists of 200,000 soldiers. Although during the coming months the CSSR will not reduce its armed forces, as for example, Poland and the GDR, organizational changes will affect the current structure of the army. [passage omitted]

[21 May 89 p 2]

[Excerpts]

**In Poland**

[Passage omitted] Giovanni Agnelli, president of Fiat, visited Poland and held talks with Mieczyslaw Wilczek, minister of industry, on cooperation with the Polish automotive industry. Minister Wilczek stated that principles were established for forming a new partnership to produce a new generation of 1,000 cc four-cylinder engines. They are to be assembled in the Central Industrial District in plants which are currently changing from military to civilian production.

On 11 May an agreement on the formation of a Polish-Italian partnership Polovat was initiated. The participants are the Compact Car Factory, the Swidnik Siwela Wool Industry Plant, and four Italian firms led by Ovatex. The partnership will produce and sell in Poland and abroad sound absorbing elements for cars and upholstery. The contract is for an unlimited time period. [passage omitted]

The Sejm commissions for social policy, health and physical culture, and legislative work have decided to ask the Sejm Presidium to have the Sejm adopt resolutions on submitting the proposed law on the legal protection for conceived children to broad social consultation. Accord to this proposed law, there will be an absolute prohibition on abortion in Poland carrying a penalty of three years. The proposal was introduced in the Sejm by 76 deputies (including eight women). During the deliberations of both commissions (on 10 May 1989) there was a demonstration by opponents of the new law outside the Sejm building.

From 8 to 10 May, the Second National Forum of Workers' Self-Managements met in Gdansk. Representatives of the workers' self-managements of 127 plants from all voivodships participated in the forum. [passage omitted]

**Abroad**

A delegation of the Ministry of Finance of the People's Republic of Poland led by Andrzej Wroblewski, minister of finance, visited Washington where it held talks with B. Conable, president of the World Bank, and M. Camdessus, a director on the board of the IMF, and R. McCormack, undersecretary of state for economic affairs. Jan Kinast, ambassador of the People's Republic of Poland to the United States, also participated in the talks. At the World Bank the talks focused on the conditions and prospects for starting restructuring programs already accepted by the World Bank and also possible new programs. At the IMF, the Polish delegation discussed conditions and deadlines for preparing a so-called adaptive program to obtain financial resources from the IMF.

During their meeting, Minister Wroblewski and Secretary of Commerce N. Brady, discussed problems associated with Poland's financial situation and possible ways the government of the United States can cooperate in normalizing financial relations with Poland.

Jozef Koziol, minister for environmental protection and natural resources, ended his visit to Sweden with specific decisions which should move Polish-Swedish ecological cooperation ahead. So far cooperation has remained largely on paper. [passage omitted]

Premier Li Peng stated that during the first four months of 1989 the value of the net national product of the PRC in comparison with the same period in 1988 showed an increase of 11.3 percent. He said that China can avoid stagflation if during the course of the current efforts to improve the economy the proper moves are made. During the next two months the overall tempo of economic development should be slowed and the regulation of the structure of production should continue. In order, however, to ensure the appropriate tempo of development the key enterprises and producers of raw materials in short supply must be assured of a supply of funds and supplies of energy. Local and central authorities should continue to control the process of investment and supervise the increase in consumption funds. Determined steps must be taken to control prices. The general economic situation, he said is promising: production of raw materials is again increasing and plans for the production of coal and energy have been exceeded. [passage omitted]

Doctor Hiroshi Nakajima, the director general of the WHO, has proposed that creditor countries agree to a partial annulment of the debts of the developing countries in exchange for greater involvement by these countries in health protection and "the introduction of systematic efforts to resolve their problems" in that area.

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[Excerpts]

#### In Poland

[Passage omitted] Premier Mieczyslaw F. Rakowski familiarized himself with progress in the construction of the nuclear power plant in Zarnowiec. The construction of this structure was begun in 1982. The investment is estimated to be 35 percent complete; however, shipments of some domestic and foreign equipment have reached 70 percent. Progress has been hampered by delays in shipment of steelwork and reinforcing steel.

The members of the Economic Committee of the Council of Ministers at their meeting on 18 May 1989 examined, among other things, the proposed law on the regulations of debts deriving from expropriations of land and buildings in Warsaw in 1945. The question focuses on the payment of compensation and the possible return

of buildings including the simultaneous transfer of the lands with the right of permanent use. A proposal presented by the minister of transportation, shipping, and communication on efforts to remove damages caused by storms on the Hel Peninsula was also adopted. [passage omitted]

On 17 May 1989 the Sejm at its 48th session in the current term in office adopted seven new laws and amended two already in force. Among the new laws are three regulating relations between the state and the Catholic Church and other religions and religious unions, one on doctors' self-management [passage omitted], one on a fund for the development of the market and the demonopolization of trade, one on geodesics and cartography, and one establishing the Battle Cross of the Polish Armed Forces in the West. [passage omitted]

An intensification of protest actions was announced by the Federation of Trade Unions of Spolem Employees. Beginning 30 May throughout Poland, Spolem stores, restaurants, warehouses, and service outlets will be opened two hours later, and beginning 22 May, they will initiate other actions locally (limitations of sales of goods packaged in glass, closing the store on nonworking days, halting production of unprofitable kinds of baked goods, etc.).

#### Abroad

Wojciech Jaruzelski visited the GDR at the invitation of Erich Honecker. During the visit of the Polish leader in Berlin, there was an exchange of views and information associated with the situations in both countries, bilateral cooperation, and some international problems. An agreement on the delimitation of coastal waters between Poland and the GDR was signed. [passage omitted]

Andrzej Wroblewski, minister of finance of the People's Republic of Poland, made a one-day working visit to Vienna. He held talks with Ferdinand Lacina, minister of finance of the Austrian Republic, on cooperation between the two ministries of finance in the search for an agreement with the Paris Club and with Western commercial banks on restructuring the Polish foreign debt. The Austrian side has traditionally attempted to recognize Polish problems in this area.

Kazimierz Olesiak, deputy premier and minister of agriculture, visited the FRG. He held talks on various forms of cooperation, not just in agriculture, but throughout the food complex.

The CEMA Executive Committee met. It examined the question of establishing standards and the preparations for the 45th session in Sofia. It also pursued a broad exchange of views on the future shape of the CEMA. [passage omitted]

At the beginning of 1990, Estonia and Lithuania will maintain their own accounts. [passage omitted]



Reuters reports that Bulgaria's foreign debt rose from \$2 billion at the end of 1984 to nearly \$7 billion at the end of 1988. The service of this debt consumes 30 percent of the net convertible currency income from exports. [passage omitted]

The weekly KEPES 7 has published an interview with Janos Fekete, former deputy president of the Hungarian National Bank, a well known banker worldwide. Judging

the last 40 years, he emphasized that Hungarian economics had achieved great successes. The first was the liquidation of the greatest inflation in the history of the world in 1946; second, Hungary was the only socialist country that succeeded in moving from an individual economy to a cooperative one in agriculture in a way that did not reduce production. The third is the economic reform of 1968. Its conception is still current. The problem was that the external situation did not permit full realization of the reform. [passage omitted]

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